



**Australian Government**  
**Productivity Commission**

# Annual Report 2007-08

Productivity Commission  
Annual Report Series



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***The Productivity Commission***

The Productivity Commission, is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by consideration 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



9 OCT 2008

The Assistant Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Assistant Treasurer

We submit to you the Productivity Commission's annual report for 2007-08. 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

Angela MacRae  
Commissioner

Matthew Butlin  
Commissioner

Judith Sloan  
Commissioner

Neil Byron  
Commissioner

Louise Sylvan  
Commissioner

Robert Fitzgerald  
Commissioner

Philip Weickhardt  
Commissioner

Steven Kates  
Commissioner

Michael Woods  
Commissioner



## Chairman and Commissioners



Gary Banks (Chairman) and Angela MacRae



Stephen Kates, Mike Woods and Neil Byron



Robert Fitzgerald and Louise Sylvan



Philip Weickhardt, Matthew Butlin and Judith Sloan

## Acknowledgments

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

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# Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
APS	Australian Public Service
COAG	Council of Australian Governments
CRC	COAG Reform Council
CSIRO	Commonwealth Scientific and Industrial Research Organisation
GTEs	Government trading enterprises
MFP	multifactor productivity
NCP	National Competition Policy
NRA	National Reform Agenda
OECD	Organisation of Economic Cooperation and Development
OHS	Occupation health and safety
PC	Productivity Commission
R&D	Research and development
SES	Senior Executive Service
WTO	World Trade Organization

---

# 1 Enhancing Australia's productivity growth

Productivity growth is important to Australia because, through income growth, it contributes to our community wellbeing. While capital accumulation and increasing labour force participation also increase per capita income growth, productivity growth is the only way of growing the economy without necessarily requiring additional physical inputs.

In this context, what can we learn from the recent slowdown in Australian productivity growth from its 1990s peaks? Have the reform impacts that enhanced earlier productivity growth run their course? Are there lessons for policy that could boost future productivity growth?

A little over half of the decline in productivity growth below long-term average rates this decade has arisen from developments in agriculture and mining — notably drought and the export boom. There are good reasons for expecting productivity growth in these sectors to improve, but sustained aggregate productivity growth recovery will not be automatic, and attaining above-average growth will require improved performance in several key areas.

Innovation and diffusion of new and better production methods, and the introduction of new goods and services, are the core drivers of productivity growth — getting more, and more highly valued, outputs from any level of inputs.

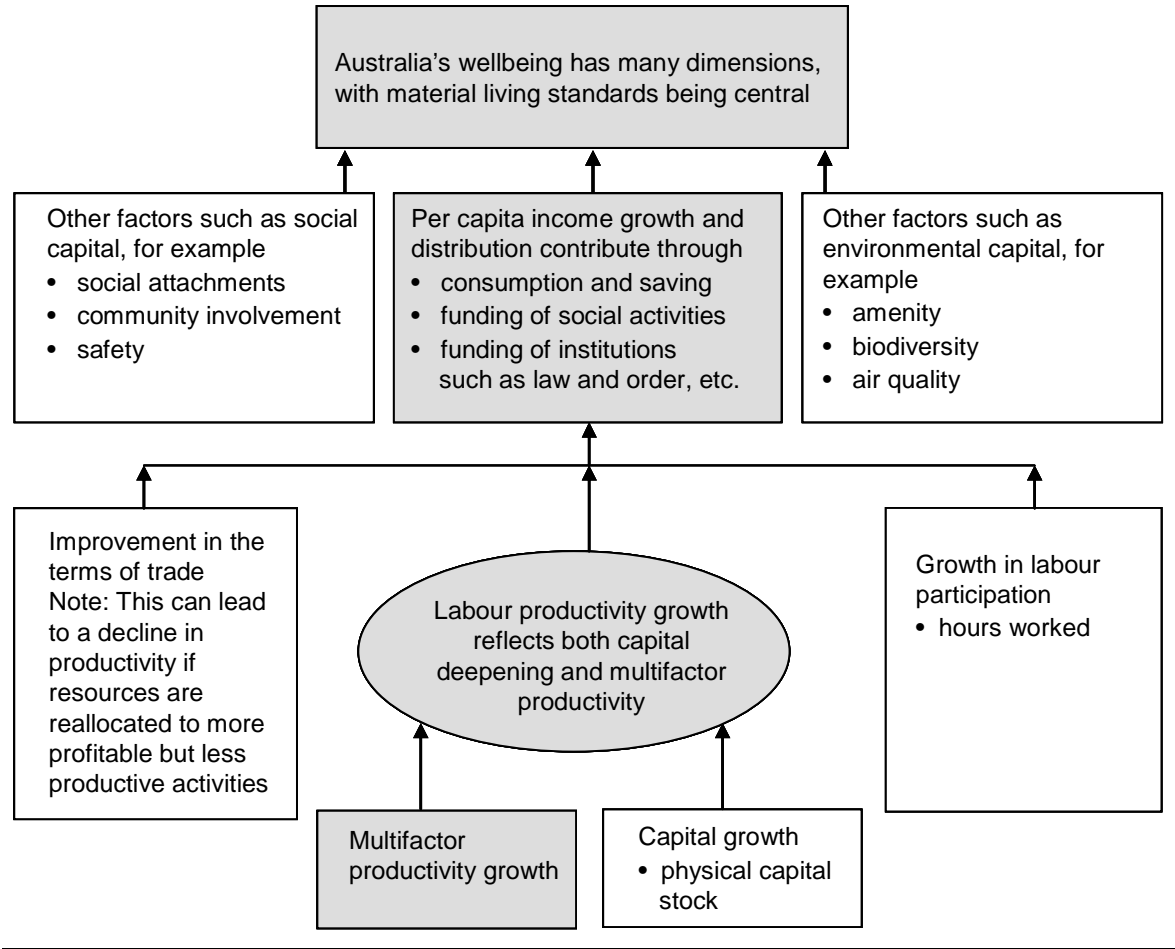
International evidence suggests that it is market competition, rather than government assistance, that is the main driver of innovation and its diffusion throughout the economy. But innovation and productivity growth also depend on having flexible regulatory settings, capable people and efficient infrastructure, for each of which government plays an important role. Further reforms in these areas could yield significant benefits.

## Why is productivity growth important?

The ultimate objective of all public policy is to improve the wellbeing of the community. The concept of wellbeing has numerous dimensions, both material and non-material. However, income growth and its distribution are central to the ability

of families to provide for current and future consumption, and for government to fund social services and support creative endeavours. Income growth also creates improved opportunities for employment, with associated benefits in improved social outcomes. These interdependencies are sketched in figure 1.1

**Figure 1.1 How productivity growth contributes to wellbeing**



**Productivity underpins per capita income**

Productivity growth contributes to growth in per capita income as it increases the outputs of goods and services produced per unit of physical input. Box 1.1 explains the different measures of productivity. The most commonly used is labour productivity, but a better indicator of economic efficiency and effectiveness is multifactor productivity (MFP). This measures the growth in output above that explained by growth in measured capital and labour inputs. (Unless otherwise specified, productivity references in this chapter are to multifactor productivity.)

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### Box 1.1 **Measuring productivity trends**

There are two commonly used measures of productivity: labour productivity, which is the volume of output per hour worked; and MFP, which is the volume of output from a bundle of both labour and capital inputs.

MFP provides the better indicator of the overall improvement in an economy's efficiency, as it measures the growth in economic output above that directly attributable to growth in measured capital and labour inputs. As such, it captures the influence of improvements in production-related factors such as skills, technology, and management practices that are not incorporated in official capital and labour measures.

Interest normally focuses on the percentage rate of productivity *growth* over time, though *levels* of labour productivity (measured in dollars of output per hour) can also be compared across industries and across countries

#### *Measuring labour and capital quality changes is difficult*

Labour and capital qualities are hard to measure. For example, rising educational qualifications tend to improve the productivity of labour, especially when education improves technical or problem-solving skills, or improves understanding and dialogue in the workplace. Technological change means that the characteristics of capital inputs, of the production process, and of outputs of goods and services are constantly changing, and these quality improvements can also be difficult to measure.

#### *Productivity growth is only measured well for the market sector*

While estimates of output and hours worked are published for the whole economy, productivity is only well-measured in the part the ABS calls the 'market sector'. In these market-sector industries, prices are indicators of quality that can be used to compare the value of new goods and services to that of the old versions they replace.

In the one-third of the economy outside of this market sector — industries such as health, education, government administration and property and business services — it is more difficult to separate price changes from changes in the quality and quantity of services. Official estimates of output growth in these industries are based on either the volume of inputs into production or relatively simple indicators of the volume of output. For example, current estimates of output growth in education reflect changes in the number of students. These measures reflect changes in the composition of services offered (primary, secondary and tertiary education) but not improvements in quality that may result, for example, from using new technologies to teach more effectively or by employing more effective teachers.

#### *Productivity growth trends can only be observed over reasonably long time periods*

Even in the market sector, it is difficult to infer trend rates of growth from short-term productivity movements. Productivity estimates move around a lot from year to year because of: real shocks to parts of the economy; errors in measurement of either inputs or outputs; and the cyclical pattern that results because employment growth tends to lag output growth. This means that average productivity growth over a number of years provides a better gauge of the trend pace of productivity improvement.

Figure 1.2 shows the contribution to the average income growth of Australians over the past four decades, from changes in labour utilisation, the terms of trade, and labour productivity. Labour productivity growth, which reflects both MFP growth *and* the increase over time in the amount of capital per hour worked, has been the main source of income growth in every decade. Changes in the terms of trade — the prices of Australian exports relative to imports — have had a small effect over longer periods with the exception of the most recent decade where sustained high commodity prices have made a large contribution to income growth. Increases in labour utilisation have made generally small and positive contributions to output growth over the past four decades.

**Figure 1.2 Contribution to income growth — the importance of productivity**

Contributions to annual average growth in real gross domestic income per capita, percentage points per year



Data source: Commission calculations based on ABS, (*Australian System of National Accounts, 2006-07*).

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## **Why the emphasis on productivity growth for the future?**

Future income growth provides the means for dealing with emerging demographic and environmental challenges, reducing the need to forgo consumption or living standards (box 1.2). Fortuitous terms of trade improvements aside, productivity growth is the only way of growing aggregate income without the necessity for additional physical inputs, relying instead on the application of knowledge embodied in capital, labour and new technologies. Although the accumulation and application of knowledge still require investment, the constraints are less than those imposed by demographics and the forgone consumption required for capital investment, and the rewards potentially greater.

Improvements in the terms of trade have played a major role in raising incomes in Australia in the past few years. Rapid economic development in China and India has pushed up prices for Australia's resource-based exports, while simultaneously reducing world prices for our manufactured imports. These externally-driven price changes have increased the volume of goods and services that can be purchased with Australian income and, while some of that income accrues to foreign shareholders of Australian companies, most has remained in Australia. While the terms of trade depends on global forces, it seems unlikely that further terms of trade improvements will continue to yield such strong income growth in the future.

Similarly, increases in labour force participation have made a contribution to income growth over the last eight years as labour markets became more flexible, and incentives for participation improved (PC 2007b). While this trend is expected to continue for a few more years, without major shifts in pension and superannuation policies, population ageing will reduce labour force participation significantly (PC 2007b, 2005b).

Capital and other types of investment are affected by lifecycle considerations resulting from the ageing population, which has an impact on aggregate savings rates. While Australia has an open capital market, domestic savings remain an important source of capital for investment. And the national capacity to borrow also depends on the prospects for future income growth. Higher productivity growth may assist in attracting foreign investment, which in turn contributes to income growth.

---

**Box 1.2 Productivity growth provides higher incomes to meet some key challenges**

Recent Commission work has highlighted that stronger productivity growth would reduce or negate the adverse impact on living standards of three looming long-term challenges: population ageing; sustainable water use; and climate change.

An ageing population tends to lower labour utilisation and raises the expenditure on aged care and public pensions, as an increasing share of the population retires from the workforce. The *Intergenerational Report* (The Treasury 2007) estimated that real GDP per person increased by 130 per cent over the 40 years to 2006-07. Given the same rate of productivity growth, slower growth in employment over the next 40 years is likely to see GDP per person increase by only 90 per cent over the 40 years to 2046-47. Policies to improve participation are important, but can make up only a fraction of this gap. There are natural limits from work-leisure choices on the extent to which increasing labour utilisation can add to wellbeing. The Commission estimated that health promotion and disease prevention, education and training and improvement of work incentives may lead to a 6 per cent increase in labour force participation over the next quarter century (PC 2007b).

A second challenge is addressing overallocation of water in some river systems and adapting water policies to the severity of the drought and the risks of a hotter climate. Water shortages and restrictions have raised questions about the sustainability of existing irrigation arrangements as well as urban water supplies. The requisite mixture of pricing changes and investments will be easier to bear with productivity growth (PC 2006c, 2008c).

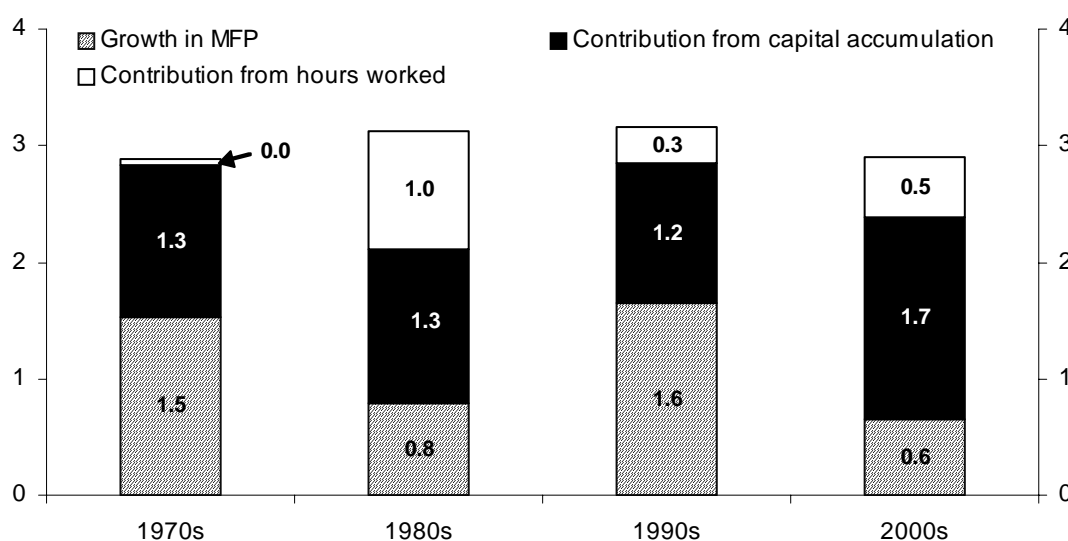
A third challenge comes from climate change. The cost of efforts to mitigate climate change through reducing the carbon intensity of GDP could reach at least 1.4 per cent of GNP in 2020 and continue to increase beyond that (Garnaut 2008). Additional costs of adaptation and compliance are likely. Our capacity to bear such costs without detracting from per capita income levels depends on achieving higher productivity growth.

## **What has happened to Australia's productivity growth and why?**

Following a surge in productivity over the 1990s, Australia's productivity growth has slowed this decade to below the long-term average rate. Figure 1.4 shows the contributions to growth in the market sector output over the last four decades from growth in hours worked, capital accumulation and growth in productivity. While output growth has varied only slightly over the period — between an annual average rate of 2.9 and 3.2 per cent per year — MFP has varied considerably, with a substantial decline in productivity growth from 1.6 per cent over the 1990s to 0.6 per cent over the seven years of the current decade for which data are available.



Figure 1.3 Annual average change, percentage points



Data source: ABS (Australian System of National Accounts, 2006-07).

## What lies behind the slump in productivity growth?

*Other OECD economies have also suffered slowdowns*

The productivity level potentially achievable by Australia depends in part on the technological frontiers established in other leading economies.<sup>1</sup> Australia has roughly kept pace with productivity growth in the European Union over the last decade, but fallen behind that of the United States.

Over long periods of time, Australia might reasonably expect at least to keep up with movements in the frontier, and ideally narrow the gap. The rapid growth in the 1990s saw such a catch-up, with Australian labour productivity rising from around 80 per cent of the US level in 1990 to 88 per cent in 1999. But by 2007, Australia had fallen back to only 83 per cent of the US level of output per hour worked, although Australia's productivity had held steady relative to the European Union over the same period (see box 1.3).

<sup>1</sup> Australia is unlikely to match the frontier level of productivity because our ability to benefit from scale, specialisation and trade is limited by the relatively small scale of domestic markets, the remoteness of Australian regional markets from each other and from the centres of world production (Battersby 2006; Boulhol and de Serres 2008).

### Box 1.3 International comparisons of productivity and income growth

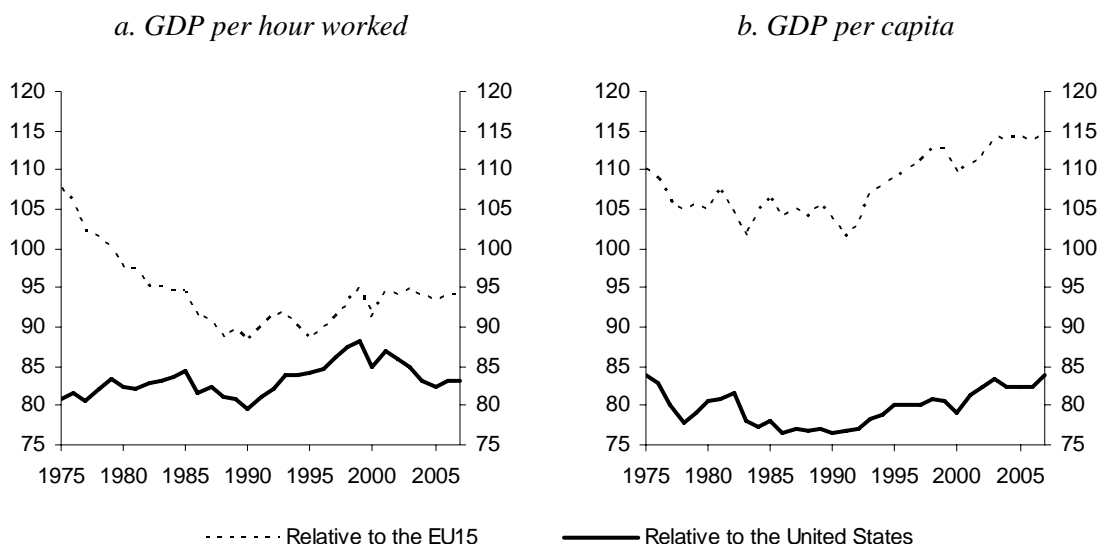
International comparisons of productivity levels need to be approached with caution. Most comparisons are based on labour productivity rather than the more complex measures of multifactor productivity. Observed differences may therefore reflect different rates of capital accumulation and employment rates, rather than productivity differences (Dolman, Parham and Zheng 2007).

Part of the decline in Australian labour productivity relative to the United States reflects US conditions. The 2001 recession in the United States was mild in terms of its effect on output, but one of the most severe since the 1930s depression in terms of its effect on employment (Kennedy and Harris 2004). This has been reflected in unusually rapid growth in labour productivity in the United States this decade, yet output growth has been lacklustre.

Elsewhere in the OECD labour productivity growth has slowed. Measured relative to the average across the European Union, for example, Australia has held on to its labour productivity gains through the 1990s — rising from 88 per cent in 1990, to 95 per cent in 1999 and was 94 per cent of the EU average in 2007 (panel a).

Importantly, in terms of GDP per capita, which also takes into account employment growth, Australia has continued to make up ground compared to both the US and the EU (panel b).

#### Australian GDP per hour worked and GDP per capita relative to international benchmarks<sup>a</sup>



<sup>a</sup> US or EU15 = 100.

*Data source:* The Conference Board and Groningen Growth and Development Centre, Total Economy Database, February 2008.

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*Slower productivity growth is the flip side of rising terms of trade and greater utilisation of labour and capital*

Historically, periods of lower productivity growth have coincided with higher growth in labour and capital inputs, leaving income growth relatively stable (figure 1.4). The current decade has seen a return to such input-driven growth in output. Strong growth in employment and investment, together with the rise in Australia's terms of trade, have generated significantly greater prosperity in recent years, despite the relatively weak productivity performance. Enterprises appear to have found more room to increase prices amid buoyant domestic demand for their products. Unit labour costs have been falling through the current decade and the income share of profits has risen rapidly. Compared with the 1990s, more effort seems to have gone into expanding production through investment and new hiring, rather than cost cutting.

For example, measured banking sector productivity growth was facilitated through the 1990s by the closure of nearly 2000 bank branches. But amid improving profitability and rapidly growing demand for financial services — tied to increases in household and business credit — banks more recently have been looking for new ways to serve customers and increase market share: the current decade has seen more than 260 additional branches open and measured productivity in the industry slow. This may also reflect a measurement problem as the quality of the services may well have increased, but this is not captured in the output measure.

In addition, adding new capacity may cause lower short-term productivity growth during the construction and training phases, with productivity rising with duration of the operational phase. The mining industry provides a clear example where rising output prices have encouraged organisations to add large amounts of additional labour and undertake new investment in an effort to try to extract more output, as discussed below.

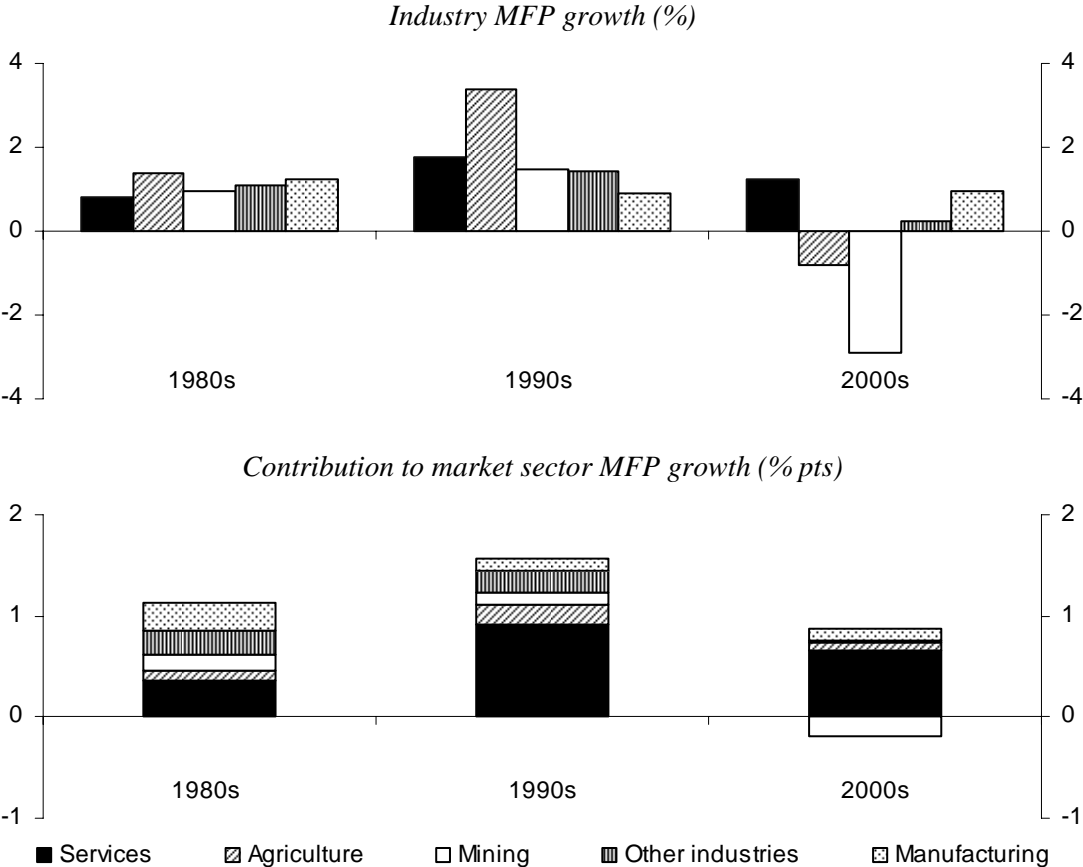
*Agriculture and mining experienced the greatest productivity slow downs*

The productivity surge of the 1990s was broadly based. This was unusual as service industries became the main sources of productivity growth for the first time. Because their labour-intensive nature makes it more difficult to apply cost-saving technological innovations, it had been thought that productivity growth was more difficult to achieve in service industries (Baumol 1967).

Figure 1.4 shows the contribution of different sectors of the economy to market sector productivity growth in the last three decades. In the 1980s, service industries explained only one-third of market sector productivity growth — this rose to almost two-thirds in the 1990s. So far this decade almost all of the growth in market sector

productivity has occurred within services. The distributive trade services (wholesale, retail and transport and storage) contributed to the 1990's surge, as did the then recently deregulated and rapidly expanding industries of finance and insurance and communications. Some of the traditional 'engines of growth', such as manufacturing, did not.

**Figure 1.4 Multifactor productivity in broad industry groups**  
Annual average change



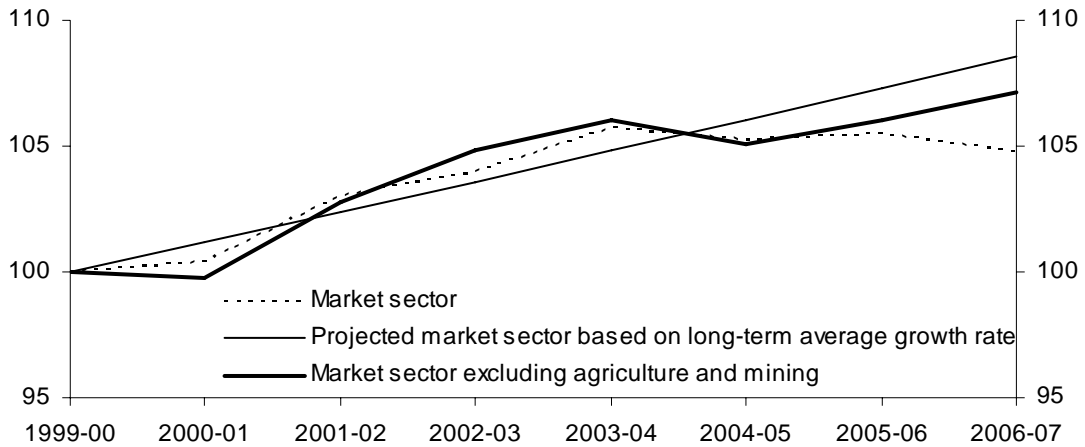
**a** Services are wholesale and retail trade, transport and storage, finance and insurance, communications, cultural and recreational services and accommodation, cafes and restaurants. Other industries are construction and electricity, gas and water supply.

Data source: Commission calculations based on ABS (*Australian System of National Accounts, 2006-07*); own estimates (<http://www.pc.gov.au/research/productivity/estimates-trends>). Hours worked data differ from those used in figure 1.3 prior to 1985-86.

While productivity growth in all sectors has slowed so far this decade, the agricultural and mining sectors stand out, recording negative productivity growth over the period since 2000. These developments in agriculture and mining explain more than half of the fall in Australia's productivity growth below the long-term average growth rate (figure 1.5). In 2006-07 alone, drought subtracted 1.3 percentage points from market sector MFP. The combined effects of the commodity price boom and depletion of oil and gas reserves on mining productivity

have subtracted 1.7 percentage points from market sector MFP over the past five years.

**Figure 1.5 Multifactor productivity**  
1999-2000 = 100



Source: Commission calculations based on ABS (*Australian System of National Accounts, 2006-07*); own estimates (<http://www.pc.gov.au/research/productivity/estimates-trends>).

### *The utilities sector's performance has also dropped*

Electricity, gas and water supply is a third sector that has detracted heavily from measured productivity growth this decade, though the reasons are less easily identifiable. Reforms from the mid-1980s saw improvement in work practices in government enterprises, brought pricing more closely into line with costs, increased competition, raised incentives to improve productivity through privatisation and reform of organisational structures, and reduced the extent of excess capacity. Productivity grew rapidly, but official estimates show that it peaked in the late 1990s and has fallen by 20 per cent in the current decade (subtracting around 0.7 percentage points from market sector MFP growth this decade). As the benefits of earlier reforms are reflected in higher underlying productivity *levels*, productivity *growth* could be expected to slow, but the reason for the significant decline is unclear. While drought conditions have lowered the output of the water supply industry, this can account for only a small part of it. Moreover, the official estimates are not easily reconciled with those from alternative studies of electricity and gas suppliers (Lawrence 2007).

---

## The outlook for productivity growth

### Will the lagging sectors recover?

Agricultural productivity grew strongly over most of the current decade, despite drought conditions in much of the country. This is partly because farmers have adjusted by disengaging workers. But the poor season in 2006-07 meant lower productivity in that year as output contracted faster than employment. The current drought, in conjunction with over-allocation of water in the Murray-Darling system, has substantially reduced water available for irrigation, which may have longer-term effects for that sector. While some recovery is to be expected as drought conditions ease, the necessity of water policy changes and the potential consequences of climate change, will likely force a period of adjustment that may slow the recovery in agricultural productivity growth.

The pronounced decline in mining productivity during the past three years stems partly from the high prices which have driven the export boom. Higher prices make it economic to mine resources with lower mineral yields. High prices have also stimulated investment in existing and greenfield sites. As these investments come on stream, productivity growth should recover somewhat, although the extent will depend on price and hence the extraction rates of minerals that are more difficult and costly to produce. This response to relative prices is an example of the short-term tensions that can arise between income growth and productivity. Longer-term, resource depletion has also contributed to lower productivity. For example, oil and gas reserves in Bass Strait and the Bonaparte Gulf have been depleted this decade.

As noted above, the decline in measured productivity growth in utilities is puzzling. It could reflect difficulties in measuring productivity in a sector that has undergone significant changes in structure over the last two decades. Productivity in utilities and other essential infrastructure makes an important contribution to overall productivity, as these services provide support platforms for private sector production and distribution and public sector service delivery. The Commission review of National Competition Policy (NCP) estimated that productivity and price changes in the 1990s increased GDP by 2.5 per cent, or \$20 billion (PC 2005a), so recovery of productivity in this sector, if it has indeed fallen, is important for long-term overall productivity growth.

A further question is whether investment in new infrastructure, which might initially create some surplus capacity, has contributed to lowering measured productivity in the short run. The scale of this effect is likely to be small — non-dwelling investment in utilities, communication and transport is less than one-fifth of total market sector investment. Nevertheless, the adequacy of the current levels of infrastructure is important and has become the focus of current policy attention.

---

## **There will be enduring benefits from earlier reforms**

Reforms in the late 1980s and 1990s brought greater product market competition, labour market flexibility, macroeconomic stability and financial market efficiency. These played important roles in bringing about the reorganisation of production and work practices to enable firms to reduce costs and take advantage of developments in technology, thereby enhancing productivity growth in the 1990s (PC 2005a). Better regulation of infrastructure industries also yielded large cost savings (PC 2005a). But have these benefits now run their course?

Notwithstanding the sectoral setbacks noted above, it is likely that there will be continuing benefits from these earlier reforms. In particular, greater market competition and microeconomic flexibility can be expected to have enhanced permanently the conditions for the search for and diffusion of more productive processes and better products. More proximate drivers of productivity — innovation, education and skills and ICT investment — also appear to have remained broadly supportive of productivity growth.

That said, achieving productivity growth rates above the long-term average is not assured. Further policy reforms are needed if Australia is to continue to improve living standards while meeting the challenges of demographic and environmental change.

## **What policies will facilitate productivity growth?**

### **Innovation and its diffusion are fundamental**

Productivity growth at the economy-wide level comes from innovation by enterprises, diffusion of these improvements to others and the reallocation of resources from less to more productive organisations and industries. For both the public and private sectors, it is at the level of organisations that innovation and diffusion occur. This requires both knowledge accumulation and application. The recent report by the Review of the National Innovation System (Cutler Report) notes that 98 per cent of new technologies are currently sourced from outside Australia (Cutler 2008). Since most knowledge creation occurs outside any individual organisation, innovation requires the ability to locate and make effective use of knowledge (New Zealand Treasury 2008).

What usually distinguishes leading organisations is not so much their ability to *create* knowledge, as their ability to absorb and apply it to their own circumstances. Most innovation is incremental — a continuous process of adjustment to reduce production costs, improve quality and respond to changing customer needs. Diffusion occurs as other organisations either copy to catch-up, or else lose market share. Both innovation and diffusion contribute to economy-wide productivity growth, with the process of creative destruction as organisations leave an industry being as important as organisations copying the innovations of others (box 1.5).

**Box 1.4 A hypothetical illustration of organisation-level influences on average productivity**

The productivity of individual organisations can differ widely — even within the same industry. Productivity differences can reflect, for example, differences in size of organisation (and therefore scale and technology) or innovation strategy, with some organisations prepared to invest heavily to develop and introduce new technological advances while others only introduce changes when technologies are well-developed.

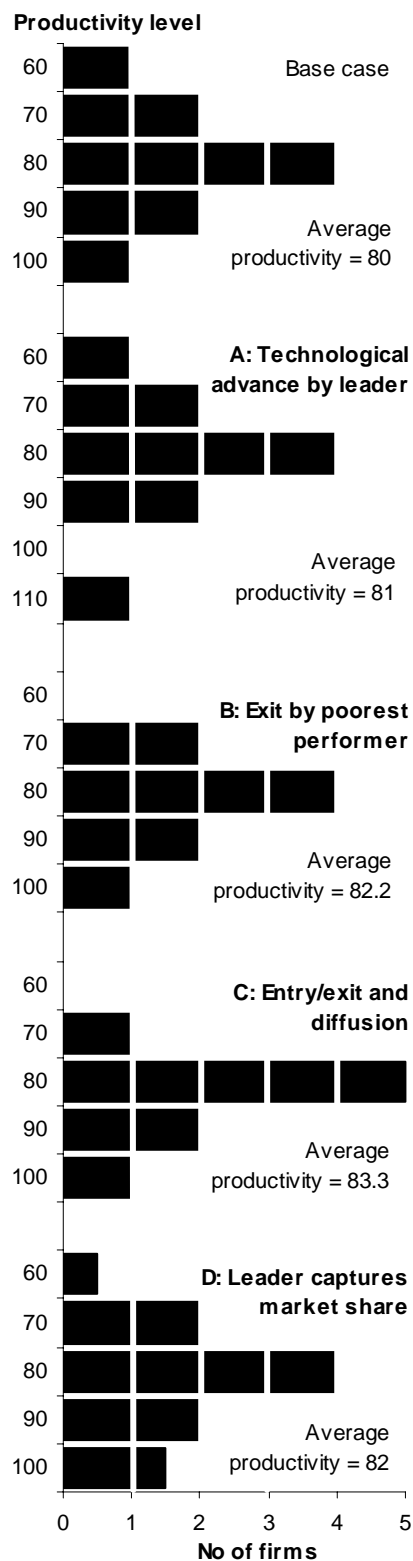
The heterogeneity in organisation-level productivity means that industry productivity is more complex and open to more influences than is often thought.

In this illustrative example, there are 10 organisations in an industry and their productivity levels vary from 60 to 100, as shown in the base case at the top of the adjoining diagram. For ease, the organisations are assumed to be the same size. The initial base case industry average productivity level is 80.

Average productivity can increase through a number of mechanisms:

- a productivity improvement (for example, technological advance) by the leading organisation (case A);
- a productivity improvement (for example, the diffusion of an existing technology) among follower organisations, which enables them to catch up at least partially to the leader (case C);
- the exit of the least-productive organisations (cases B and C);
- the entry of new organisations with above-average productivity levels (case C); and
- leading organisations (more productive) capture market share from less-productive organisations (case D).

Whilst this illustration is stylised and does not purport to indicate the relative importance of the different mechanisms in practice, it does illustrate that organisation-level dynamics can have very important influences on average productivity. Overall productivity improvements can be as much about raising the performance of productivity laggards, or their exit, as it is about developing and implementing ‘cutting-edge’ technologies.





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## **Incentives, flexibility and capabilities underpin innovation**

Policies to influence innovation and its diffusion, can be grouped under three headings :

- *Incentives* — the external pressures and disciplines on organisations to perform well.
- *Flexibility* — the ability to make changes to respond effectively to market pressures.
- *Capabilities* — the human and knowledge capital, as well as infrastructure and institutions, that are needed to make necessary changes.

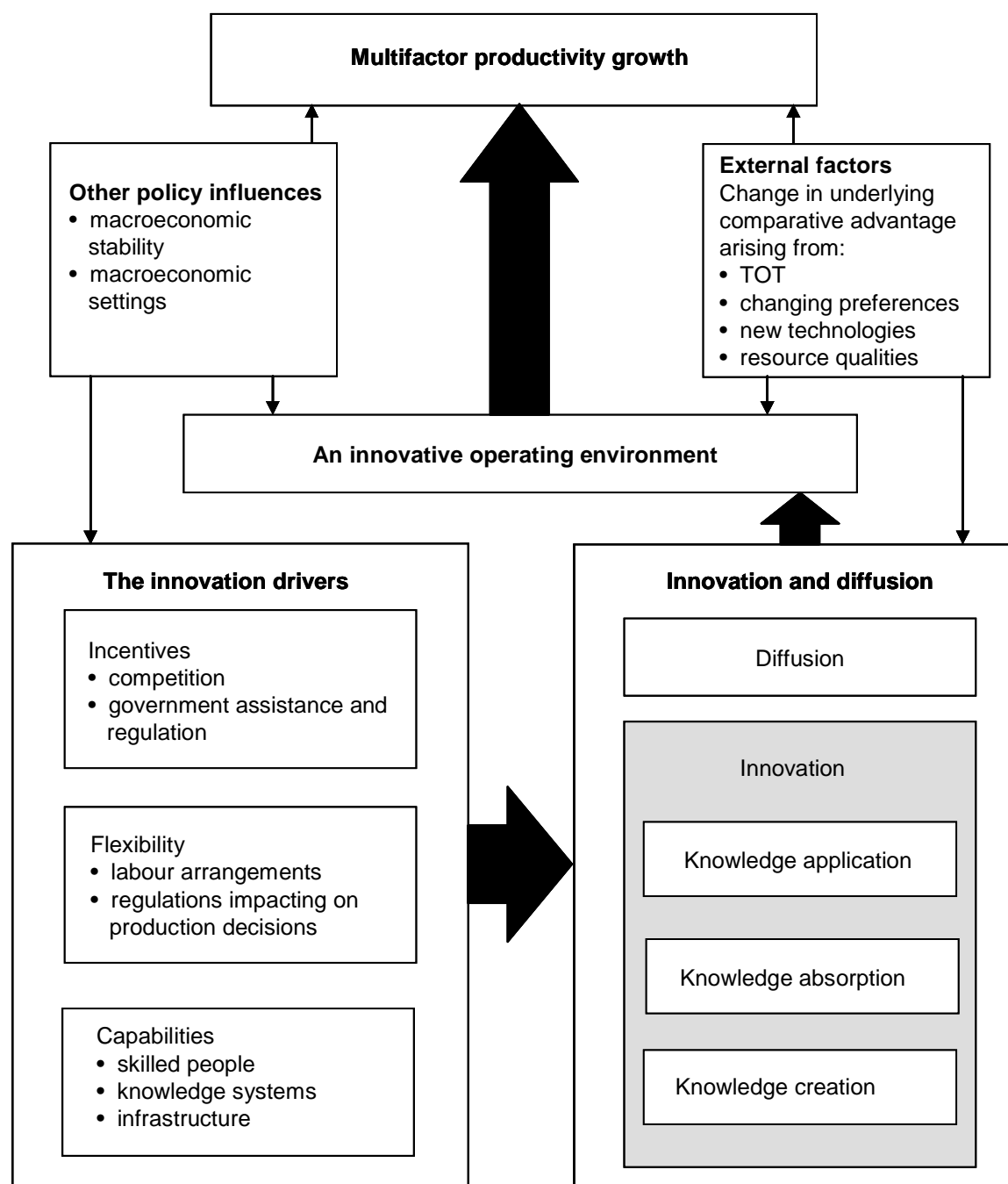
All three policy ‘planks’ influence the ability of an organisation to innovate or adopt improvements in processes and products. Innovation is not just about the ‘eureka’ moments from R&D; indeed, it is more about the continual learning and experimenting at the organisation level and responding to client needs. Figure 1.6 summarises these broad influences.

The three determinants of innovation performance — incentives, flexibility and capabilities — are strongly interactive. All three need to be attended to in a policy framework to promote innovation by organisations, and diffusion of best practices among them. The Cutler Report placed particular emphasis on the importance of capabilities, but a successful innovation policy has to place such capabilities in the context of the incentives and flexibility to drive change and apply those capabilities productively. Successful innovation is rarely supply driven — the generation of knowledge and capabilities does not ensure their effective application. It is competition that forces organisations to absorb and apply new knowledge in order to improve their profits and to survive. Australia’s own history of decades of relatively weak innovation and productivity growth coinciding with a relatively highly-educated workforce underlies this.

### *Incentives: competition is the key*

There is a substantial body of international evidence demonstrating the crucial role of market competition in encouraging innovation and diffusion (OECD 2007). Competition provides the fundamental incentive for organisations to pursue changes necessary to succeed, through innovation and productivity gains. It also underpins the process of ‘creative destruction’, with organisations that do not adapt or innovate successfully losing market share to those that do.

Figure 1.6 Innovation, diffusion and productivity growth



Falling barriers to international trade and investment in the 1980s exposed Australian firms to intensified competition from the world's best. This forced them to seek new and better production processes, while at the same time providing them with greater access to new ideas and new markets. Restrictions on foreign entry or tariff protection remain significant for the automotive industry and textile, clothing and footwear industries, and implementation of scheduled assistance reductions is expected to deliver further net benefits (PC 2008a,b).

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The removal of barriers to international trade exposed many domestic or ‘behind the border’ impediments to competition that were raising business costs. NCP has been successful in removing or reducing many of these, stimulating, in particular, innovation and productivity improvement in a range of infrastructure services that underpin economic performance (PC 2005a). Nevertheless, there is an unfinished agenda for COAG’s National Reform Agenda (NRA) to address. Competitive reforms in areas such as coastal shipping and aviation, as significant transport inputs, offer potential to stimulate innovation and productivity more widely. Improved competition in pervasive small business areas such as pharmacies, taxis and newsagencies would also stimulate innovation in those services, to the benefit of consumers across the country.

Barriers to international trade and domestic contestability are not the only forms of assistance that can dull competitive impulses for innovation. Subsidies to support production or investment can have a similar effect, providing firms with a protective buffer against more competitive rivals. While there can be a case for subsidies where market signals and incentives are inadequate, they need to be well targeted to ensure that the public benefit exceeds the cost, and that public funding does not simply crowd out private sources. Little of the nearly \$16 billion of gross annual Commonwealth assistance to industry, as identified in 2006-07, is regularly reviewed to assess whether the community gets value for its money (PC 2008e).

There is a role for various forms of direct assistance to encourage firms to undertake greater R&D. While the Commission has found little evidence to support fears of underinvestment in research with direct commercial applications, there are potential benefits from public support for more basic or strategic research, where the returns can be difficult for an organisation to adequately appropriate. But, again, careful design and evaluation are needed to ensure that support measures actually give rise to additional R&D activity, such that the benefits to society exceed the costs (PC 2007a). This was acknowledged in the Cutler Report, which noted the need for government to be:

confident, firstly, that there are structural impediments to markets doing this work and, secondly, that government involvement will generate more benefits in addressing these problems than it will generate in collateral costs. (Cutler 2008, p16)

Again, it is important to recognise that much of the innovation on which productivity improvements at the firm and economy-wide levels depend, does not involve technologies developed by innovating organisations. Indeed, according to survey data, only 30 per cent of what the ABS defines as ‘major innovating firms’ actually perform R&D (PC 2007a). For the bulk of innovation activity, therefore, competition provides sufficient incentive for private enterprises, without the need for taxpayer support.

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*Flexibility: enabling organisations to be responsive*

Innovation often entails changes in the way organisations arrange their production processes. Increasingly, firms tailor products to different customer needs, often providing a joint package of goods and services. They need to be able to react quickly to changes in customer requirements.

Flexibility to alter work arrangements and workforce requirements, plays an essential role. Reforms since the late 1980s have enabled firms to be far more innovative than was previously apparent. This has been reflected in greater take-up rates of new technologies (Parham et al. 2001). For example, the breakdown in the demarcation of work responsibilities in the wholesale and retail industries with the move from industry to enterprise-based bargaining, enabled adoption of new scanning and database technologies that drove rapid productivity growth from the mid-1980s (Johnston et al. 2000).

While industrial relations regulation has a legitimate concern for workers' basic rights based on community norms, it is important to preserve the ability of organisations to engage effectively with employees to change work arrangements in response to commercial imperatives. Flexibility in employment arrangements can yield significant benefits for employees as well as their employers, as demonstrated by research into the growth in part-time employment for women and older workers since the early 1990s (Abhayaratna et al. 2008).

There is a range of other regulations that can reduce an organisation's adaptability or responsiveness, and burden it with unnecessary costs. Compulsory standards, complex requirements, or marked differences across jurisdictions can all limit, or raise the cost of, organisational changes needed for successful innovation. For example, innovation in occupational health and safety (OH&S) practices based on workers assuming responsibility for risks they are best placed to manage, is prevented by regulation in some jurisdictions. This and another 26 regulatory 'hotspots' have been identified by COAG as needing reform under the NRA (see box 1.5). The Regulation Taskforce estimated that unnecessary compliance costs could amount to some \$8 billion nationally (PC 2007b). The costs would be significantly greater if they included the effect that such red tape can have in limiting innovation.

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### Box 1.5 Regulatory 'hotspots' identified by COAG

COAG has identified 27 regulatory areas requiring national reform:

- National harmonisation of occupational health and safety laws is seen as a priority; with commitment to harmonisation reflected in a commitment to develop model legislation by September 2009.
- Early action in 2008 on a further 12 areas, covering environmental assessment and approvals bilaterals, payroll tax administration, trade licences, the Health Workforce Intergovernmental Agreement, national trade measurement, rail safety regulation reform, the consumer policy framework, product safety, trustee companies, mortgage credit and advice, margin lending, and non-deposit taking institutions.
- Significant progress to be made in accelerating the five remaining COAG hotspots — development assistance, building regulation, chemicals and plastics regulatory reform, Australian Business Number and business names registration, and Personal Property Securities reform.
- Nine new areas to be added to COAG's regulation work program, covering standard business reporting, food regulation, a national mine safety framework, electronic conveyancing, upstream petroleum (oil and gas), maritime safety, wine labelling, directors' liabilities, and financial service delivery.

Source: COAG (2008a (Attachment B) and 2008b).

#### *Capabilities: improving the 'support platforms' for innovation*

Ultimately, all innovation occurs through people. Organisations need people who can develop new and better ways of doing things, including through adopting and adapting existing knowledge and technologies. Managerial skills are a critical input into innovations in organisational practice, while creative talent enables the development of new products as well as engaging client interest.

COAG's NRA has placed central importance on building Australia's human capital as a key reform stream. The Commission has estimated that improvements in workforce productivity arising from specifically targeted reform areas in health and education could add 3 per cent to annual GDP (PC 2007b). Addressing educational disadvantage is a priority, as is raising productivity in the provision of education services and, above all, improving the quality of teaching at all levels (COAG 2008a,b).

Australia's universities and public research bodies, such as CSIRO, are important in the 'national innovation system' as a store of knowledge, as well as generating new knowledge. Their social value depends on the quality of basic and strategic research that they perform which would not otherwise be done. The Commission's 2007

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report on *Public Support for Science and Innovation* found that there was some risk of funding falling short for basic research and a related concern that university research was seeking to be too commercial. The Cutler Report draws similar conclusions and contains recommendations for additional funding for university and public research and that argued publicly-funded knowledge should be made freely available (Cutler 2008). Cutler sees the development of networks and linkages which facilitate dissemination of research findings for more commercial uses as an objective of “market facing” innovation programs. However, experience has shown that developing effective programs that can yield a net benefit over time to the community is challenging. For example, the Cooperative Research Centres, a major, long-standing policy initiative in this area, appear to have strayed from their original mission (PC 2007a).

The timely provision of efficient economic infrastructure also plays a key role in supporting innovation activity and Australia’s productivity performance. Among the range of infrastructure services, transport and communications provide particularly important platforms for innovation. These enable many of the intangible investments such as databases, information systems, organisational capital, and delivery systems, that support an organisation’s on-going innovation activity. Currently an important policy decision in this area relates to developing a national broadband network. Australia’s experience in telecommunications reform underlines the importance of getting the vertical structure of this industry determined appropriately at the outset, with the goal of enabling effective competitive pressure over time without compromising necessary private investment.

More broadly, good regulation is the key to Australia reaping the potential benefits from private investment in infrastructure. Competition regulation has a key role. Third party access regimes have been modified in recent years to reduce their potentially inhibiting effects on investment, but further legislative amendments are needed following a Federal Court decision in 2007 (PC 2007c). Environmental and social regulation can also affect infrastructure investment and usage. In particular, Australia’s actions to reduce greenhouse gas emissions will have significant implications for investments in energy and transport that need to be taken into consideration.

Where public provision of infrastructure is necessary, such as for much of the road network, it is important that projects are subject to far more rigorous cost-benefit assessment than has typically occurred in the past, if investments are to yield the highest payoff to Australia’s productivity and living standards (PC 2007d).

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Finally, in relation to capabilities, governments provide the regulatory and institutional framework for economic activity and must promote innovation and productivity improvements in their own services. The legal and judicial framework for markets, governance systems for Government Trading Enterprises, and accountability frameworks for the delivery of public services provide important platforms that enable, as well as affect the incentives for, innovation and productivity growth in the public and private sectors.

In sum, the challenges confronting Australia lend urgency to policy efforts to raise national productivity. Innovation is a key to achieving this. There is an important role for government in building human capital and supporting R&D where the knowledge will be made generally available. The Cutler Report's emphasis on sound cost-benefit evaluation of proposed programs to support innovation, and their regular review to ensure programs remain cost effective, is well founded. More fundamentally, sustaining and advancing reforms to enhance market competition and to reduce regulatory constraints on enterprise flexibility remain the keys to stimulating innovation, and must continue to play a central role in an effective innovation policy.





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## 2 Review of Commission activities and performance

### **Some highlights from 2007-08**

- major reports on consumer policy, retail tenancies, chemicals and plastics regulation, local government revenue raising capacity, regulatory burdens on the primary sector and pigmeat safeguards
- announcement by COAG that the Commission will report, every two to three years, on the economic impacts and benefits of COAG's agreed reform agenda
- modelling of the economy-wide effects of future assistance options in the TCF and automotive industries
- invited submission to the Garnaut review of climate change policies
- hosted a roundtable conference on promoting better environmental outcomes
- a range of supporting research to inform policy development and debate on productivity, urban water, climate change and migration

### **Areas of focus for 2008-09**

- completion of current inquiries and government-commissioned research on paid maternity, paternity and parental leave, mutual recognition arrangements, the regulatory burden on the upstream petroleum (oil and gas) sector and drought assistance
- continuing assessment of regulatory burdens on business and the inter-jurisdictional benchmarking of business regulation
- development work on assessing the economic impacts and benefits of COAG's agreed reform agenda to assist the COAG Reform Council (CRC)
- assist the Steering Committee for the Review of Government Service Provision in establishing reporting on SPP indicators for the CRC, as well as progressing the 2009 report on Overcoming Indigenous Disadvantage
- plan for and further develop capabilities to meet future work demands on social and environmental, as well as economic, issues of national significance

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## Overview

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. 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.

In April 2008, the Productivity Commission had its tenth anniversary, being formed in 1998 from an amalgamation of the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. 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, beyond 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 outcome objective designated 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, is active in four broad work streams or categories of outputs:

- government-commissioned projects
- performance reporting and other services to government bodies
- competitive neutrality complaints activities
- supporting research and activities and statutory annual reporting.

The Commission's outputs have been adjusted in the current reporting period to reflect the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation, as part of the revised administrative arrangements following the 2007 Federal Election.

The breadth and volume of the Commission's work are indicated by the reports it published in 2007-08 (box 2.1). There was a continued emphasis in the 2007-08 work program on regulatory issues, with inquiries into the consumer policy framework and the regulation of retail tenancies, and studies on chemicals and plastics regulation, the benchmarking of administrative compliance costs for business registrations and the regulatory burden on Australia's manufacturing sector and distributive trades. A variety of environmental issues, each with significant economic dimensions, also featured prominently, with projects completed on the precautionary principle, urban water reform and the methodology of the Stern Review, and a submission to the Garnaut review examining the case for supplementary policies to an emissions trading scheme.

**Box 2.1 Commission publications in 2007-08**

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

Review of Australia's Consumer Policy Framework	The Market for Retail Tenancy Leases in Australia
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***Public inquiries (final reports)***

Review of Australia's Consumer Policy Framework	The Market for Retail Tenancy Leases in Australia
Safeguards Inquiry into the Import of Pigmeat (Accelerated report)	Safeguards Inquiry into the Import of Pigmeat

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

Chemicals and Plastics Regulation	Annual Review of Regulatory Burdens on Business – Primary Sector
Assessing Local Government Revenue Raising Capacity	Annual Review of Regulatory Burdens on Business – Manufacturing and Distributive Trades

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

Assessing Local Government Revenue Raising Capacity	Annual Review of Regulatory Burdens on Business – Primary Sector
Modelling Economy-wide Effects of Future Automotive Assistance	Economy-wide Effects of Assistance to the Textiles, Clothing and Footwear Industries

***Performance reporting***

Report on Government Services 2008: education, justice, emergency management, health, community services and housing	Report on Government Services 2008: Indigenous compendium
Financial Performance of Government Trading Enterprises 2004-05 to 2006-07	

***Annual report suite of publications***

Annual report 2006-07	Best Practice Regulation Report 2006-07
Trade & assistance review 2006-07	

(continued next page)

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Box 2.1 (continued)

**Commission research paper**

Towards Urban Water Reform

**Submission**

Productivity Commission Submission to the  
Garnaut Climate Change Review

**Chairman's published speech**

Riding the Third Wave: Some challenges  
in national reform

**Conference/workshop proceedings**

Behavioural Economics and Public Policy      Productivity Perspectives 2007

**2008 Richard Snape Lecture**

*Economic and Regulatory Reforms in  
Europe: Past Experiences and Future  
Challenges (Patrick Messerlin)*

**Staff working papers**

Precaution and the Precautionary Principle: Two Australian Case Studies	Migration, Trade and Investment
The Stern Review: an assessment of its methodology	Distributional Effects of Changes in Australian Infrastructure Industries during the 1990s
Part Time Employment: the Australian Experience	Armington General Equilibrium Model: Properties, Implications and Alternatives

As in previous years, the Commission was heavily involved in assisting all jurisdictions through a mix of standing research responsibilities and specific projects. The Commission's standing research activities encompass cross-jurisdictional reporting on the performance of government services, indicators of Indigenous disadvantage and the performance of government trading enterprises.

Specific projects completed in 2007-08 to assist policy development across jurisdictions included the Commission's inquiry on Australia's consumer policy framework (for consideration by the Ministerial Council on Consumer Affairs), and the study on chemicals and plastics regulation, undertaken to inform the work of the COAG Ministerial Taskforce on Chemicals and Plastics Regulation.

The Commission's focus on policy and regulatory matters across jurisdictions is set to continue into 2008-09 and beyond. At its meeting in March 2008, for example, COAG requested that the Commission undertake a further review of mutual recognition arrangements and a study of Australia's framework for upstream petroleum regulation. These studies commenced in April 2008. COAG also requested in March 2008 that the Commission undertake reviews, every two to three

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years, of the economic impacts and benefits of the COAG reform agenda. A further role was also announced for the Steering Committee for the Review of Government Service Provision to assist the COAG Reform Council with its performance reporting.

The Commission also commenced the second stage of its business regulation benchmarking study in September 2007, following agreement by COAG that this proceed on the basis of the framework established in its stage one report. The second stage of the study examines the regulatory compliance costs associated with becoming and being a business, the delays and uncertainties of gaining approvals in doing business, and the regulatory duplication and inconsistencies in doing business interstate in a range of regulatory areas over an initial three year period.

In addition, the Commission undertook the second of the Commonwealth's annual reviews of existing regulation — in the manufacturing sector and distributive trades — following an earlier COAG agreement that all jurisdictions review their existing regulations with a view to encouraging competition and efficiency, while reducing the regulatory burden on business.

At its July 2008 meeting, COAG also announced that three further projects would be commenced by the Commission: on anti-dumping, parallel import restrictions on books, and developments in gambling.

## Year in review

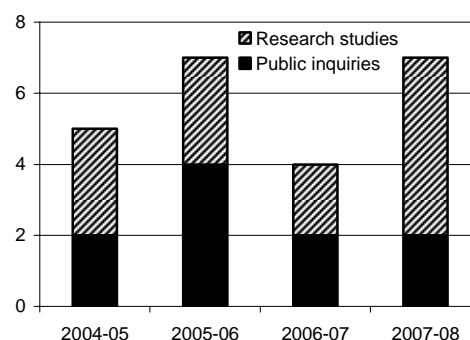
The Productivity Commission's role in informing public policy development and community understanding on key issues influencing Australia's productivity and living standards is pursued through four major outputs. The principal developments in these activities during 2007-08 are outlined below.

### Public inquiries and other commissioned studies

The Commission had five public inquiries and nine commissioned research studies underway at some time during 2007-08. In addition to completing four references from the previous year, it received ten new projects, maintaining the breadth of policy coverage evident in recent years (figure 2.1).

The Commission completed two inquiries

Figure 2.1 **References on hand**  
Number at 30 June



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commenced in the previous financial year: on the consumer policy framework and the market for retail tenancy leases.

Three new inquiries commenced in 2007-08.

- The safeguards inquiry into the import of pigmeat considered whether safeguard action was warranted under WTO rules against imports of pigmeat into Australia. The inquiry commenced in October 2007, with an Accelerated Report in December on whether urgent action was justified and a final report in March 2008.
- The inquiry on support for parents with new born children arose from concerns about the level of support provided to such parents, in particular in balancing work and family responsibilities. The Commission has been asked, among other things, to consider the economic, productivity and social costs and benefits of providing paid maternity, paternity and parental leave; identify models that could be used to provide such support; and assess the efficiency and effectiveness of government policies that would facilitate them. A draft report is due in September 2008 and a final report by the end of February 2009.
- The Commission's inquiry into government drought support is to report on the appropriateness, efficiency and effectiveness of current business and income support measures provided by governments to the rural sector to help it manage drought. The Commission has also been asked to identify impediments to improving self reliance and preparedness for periods of financial difficulty and to identify the most appropriate policy approaches to build self reliance and preparedness to manage drought.

During 2007-08 the Commission received requests for and completed two new research studies on modelling the effects of future industry assistance options. The study on automotive assistance options was completed in May 2008, and the study on the textiles, clothing and footwear industries was completed in June. The Commission finalised a further two government-commissioned research studies commenced in the previous year — a study of local government revenue raising capacity and the first of the Commonwealth's annual reviews of regulatory burdens on business.

The Commission also commenced a number of other studies commissioned by Government, including:

- a study of chemicals and plastics regulation that commenced in August 2007, and was released in final form in July 2008

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- the second stages of a review of regulatory burdens on business, completed in August 2008, and a benchmarking study on business regulation, due to be completed in November 2008
  - a 12-month study on Australia's framework for upstream petroleum regulation that was announced by COAG in March 2008 and received by the Commission in April 2008
  - a review of the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA), which commenced in April 2008, and is to report within nine months of receipt of the reference. This review was also announced by COAG at its March 2008 meeting and follows an earlier review of these agreements undertaken by the Commission in 2003.

Further information on public inquiries and commissioned research studies undertaken by the Commission during 2007-08 and government responses to reports is provided in appendices B and C.

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

The Commission has provided 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 report. In addition, the Secretariat is represented (as a member or observer) on many national 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 2008* was the thirteenth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning education, health, justice, community services, emergency management and housing. The services covered in the 2008 Report collectively account for approximately \$121 billion of government recurrent expenditure, equivalent to nearly 13 per cent of gross domestic product. A separate *Indigenous Compendium* was also published, providing an easily accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review strives for continuous improvement. The 2008 Report included new indicators for public hospitals and primary and community health, and improved reporting on aspects of children's services, school education, vocational education

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and training, aged care services, services for people with a disability, protection and support services and housing.

In April 2002, the Steering Committee was asked to produce a regular report on key indicators of Indigenous disadvantage, as part of COAG's 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
- to be meaningful to Indigenous people themselves.

Three editions of the report *Overcoming Indigenous Disadvantage: Key Indicators* have been released, in November 2003, July 2005 and June 2007. The most recent edition showed that many Indigenous people have shared in Australia's recent economic prosperity, with improved employment outcomes and higher incomes. There have also been improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating. Work is underway on the next edition of the *Overcoming Indigenous Disadvantage* report, scheduled for release in mid-2009.

The Commission's performance reporting activities 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, with a report covering GTE performance in the period 2005-06 to 2006-07 released in July 2008. It included the final outputs of a research program on the capital management of GTEs. Capital management was identified as warranting closer analysis given that most GTEs have capital intensive operations. Improvements to capital productivity arguably offer the greatest scope for further gains in financial performance. The topics covered were the impact of inadequate compensation for community service obligations (CSOs) and poor profitability on capital management and investment.

The Commission reported that after almost two decades of reform, and despite significant progress, more than half of those GTEs monitored continued to earn a return on assets below the risk-free rate.

A contributor to this outcome is that, contrary to stated policy objectives, not all governments have identified and funded all CSOs. Inadequate funding of CSOs



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affects a GTE's financial performance and can result in inadequate or misallocated investment, price increases for non-CSO services, and/or lower quality service provision.

Poor profitability can lead to inadequate investment and asset maintenance, which can in turn reduce the future profitability of GTEs. Further, without a return to commercially sustainable operations, this cycle is likely to persist.

Further information on performance reporting activities in 2007-08 is provided in appendix B.

### **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 private sector counterparts simply by virtue of their public ownership.

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) is staffed on a needs basis and 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 two written complaints in 2007-08 and completed an investigation for a complaint received in 2006-07. One of the two complaints received in 2007-08 was not investigated as the matter fell outside the purview of the AGCNCO. The second complaint did not proceed to formal investigation after a initial investigation was completed.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2007-08 the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

Details of the completed investigation, complaints received, action taken, and the advisory and research activities of the AGCNCO, 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.

Following consultations in Melbourne and Canberra in July 2006, the Commission reaffirmed that its supporting research program would continue to emphasise the sustainability of productivity improvements, including environmental and social aspects. The program for the following two years was to include work on:

- productivity and its determinants
- environmental and resource management
- labour markets
- development of economic models and frameworks (PC 2006a).

The Commission's published research during 2007-08 is broadly reflective of these topic areas (box 2.1). It included Commission research and staff working papers on a number of environmental topics, including urban water reform, the precautionary principle, and the methodology of the Stern Review. Papers were also published on the effects of migrants living in Australia on trade and investment flows; the distributional effects of changes in Australian infrastructure industries during the 1990s; and recent Australian experience with part time employment. Several papers were also published connected to the Commission's statutory annual reporting requirements. Further research consultations are currently being planned for the second half of 2008.

Further information on the Commission's supporting research activities and publications in 2007-08 is provided in appendix E. This also details the 80 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research and performance reporting work (table E.1). The Commission briefed 29 international delegations and visitors during 2007-08, with a particular focus on the Commission's role and activities and related policy issues (table E.2).

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## **Transparency and public consultation**

A central 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 draw on public input and are tested publicly, and are therefore more robust.

### **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 (box 2.2). An indication of the extent of consultation undertaken by the Commission is that during the course of its public inquiry activities in 2007-08, it met with more than 120 organisations or groups; held 28 days of public hearings; and received more than 700 submissions.

The Commission has adapted its processes to suit the variety of research studies commissioned by the Government. These studies require less formal public interaction than inquiries, but the Commission nevertheless provides opportunities for participants or experts to comment on its analytic frameworks and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 260 submissions to these studies in 2007-08, with many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

### **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.

For example, in order to help refine and improve proposed approaches and to narrow areas of contention in its research study on Local Government Revenue Raising Capacity, the Commission:

- held three roundtables prior to the release of the draft report. These provided an opportunity to discuss key issues with academics, councillors, local government managers, business and ratepayer representatives and others

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## Box 2.2 Participative and transparent processes: two examples

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

In its inquiry on *Australia's Consumer Policy Framework* the Commission:

- placed advertisements in the national press and sent circulars to a wide range of individuals and organisations thought likely to have an interest in the inquiry
- during March and April 2007 held an initial round of public hearings in all of the State and Territory capitals to receive early advice on key inquiry issues
- held a second round of public hearings in Canberra, Melbourne and Sydney in February 2008 following the release of its Draft Report
- held informal discussions in Australia with a broad cross-section of interested parties, including Australian, State and Territory government agencies involved in the development and/or application of consumer policy, and consumer and industry organisations
- met with various government, consumer and industry organisations in Canada, Europe, New Zealand, the United Kingdom and the United States
- received more than 250 written submissions from a wide range of interested parties, more than half of which were received in response to the Draft Report
- undertook a qualitative survey in September and October 2007 of ten firms and associations to help it better understand the nature and extent of the impacts on interstate businesses or jurisdictional differences in consumer policy
- had its inquiry representatives attend a conference on behavioural economics in Washington DC in April 2007 and the Commission's workshop and conference on behavioural economics in Melbourne in August 2007
- engaged two professors from the Queensland University of Technology to assist it with some specific consumer policy matters.

In its study of *Chemicals and Plastics Regulation*, the Commission:

- held a series of roundtable hearings to canvas particular issues and options for reform. The roundtables were attended by 59 individuals representing 33 organisations
- also held an additional meeting/roundtable, which addressed issues relating to the environmental management of chemicals. This was attended by members of the NCHEM Working Group, and the Centre for International Economics (contracted by the Department of Environment, Water, Heritage and the Arts to undertake a cost-benefit assessment of NCHEM)
- addressed two meetings of the relevant Ministerial Taskforce, and a meeting of the affiliated Senior Officers Working Group, and is expecting to provide briefings to both groups on its final report
- received 63 submissions prior to releasing the draft report, and 53 between the draft report and the final report.

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- held a further two roundtable discussions following the release of the draft report, which provided local government associations from around Australia, and some individual councils and government departments, with an opportunity to provide feedback on the draft report
  - held meetings with members of an independent reference panel, including Professor Peter Abelson (Applied Economics) and Associate Professor Joe Hirschberg (Melbourne University), which reviewed and reported on the modelling undertaken for the study.

In its studies on modelling future assistance options in the automotive and TCF industries, the Commission held technical workshops at which its modelling approach — together with some preliminary results — were reviewed by panels of modelling experts. Participants at the automotive workshop included representatives of the Automotive Review Secretariat, the Australian Government Treasury, and the Department of Innovation, Industry, Science and Research, as well as three independent referees — Philip Adams, Director at the Centre of Policy Studies at Monash University; Chris Murphy, Director at Econtech; and David Pearce, Director and Principal Policy Analyst at the Centre for International Economics. Dr Larry Cook, Lecturer in the Department of Economics at Monash University, also provided comments. Three referees attended the TCF workshop — Philip Adams, David Pearce and John Zeitsch (Concept Economics). Other participants at the workshop included representatives of the TCF Review and Secretariat, the Australian Government Treasury, and the Department of Innovation, Industry, Science and Research.

The Commission also involves outside policy advisers and researchers through hosting or co-sponsoring conferences or roundtables on topics of policy interest.

- In July 2007 the Commission held a workshop on trends in aged care, with invited participants from a range of organisations including Aged and Community Services Australia, the Australian Institute of Health and Welfare, TriCare, Wesley Mission, Volunteering Australia, Aged Care Association of Australia, Australian Nursing Federation, Catholic Health Australia, Alzheimer's Australia, National Rural Health Alliance and Carers Australia.
- In early August 2007, the Commission held a Roundtable on Behavioural Economics and Public Policy, which explored the application of behavioural economics to public policy development. Invitees to the roundtable included eminent international experts as well as senior officials, business and consumer representatives, policy analysts and commentators. Papers were initially made available on the Commission's website and the proceedings were subsequently published.

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- In December 2007, the Commission and the Australian Bureau of Statistics (ABS) co-hosted *Productivity Perspectives 2007*, a one-day productivity conference overviewing productivity trends, as well as various measurement and analytical issues. Invited speakers came from a range of organisations including the OECD, University of British Columbia, University of NSW and the Queensland Treasury, in addition to the ABS and the Commission.
  - Preparations were made in 2007-08 for the Commission's Roundtable on Promoting Better Environmental Outcomes, held in August 2008. Invitees to the roundtable included international as well as local experts, together with senior officials, policy analysts and commentators.

The Commission also has an active seminar program involving external experts on a range of policy issues relevant to its work. These seminars stimulate new ideas and debate within the Commission and help foster networks with academic and other experts.

The Commission's Visiting Researcher Program seeks to attract established researchers with an outstanding research record in areas related to its priority research themes and activities. Visiting Researchers contribute to both the work and intellectual life of the Commission. Dr Geoff Edwards (formerly Associate Professor at La Trobe University) and Dr Mark Harrison (formerly of the Australian National University and an independent economic consultant) continued as Visiting Researchers in 2007-08. Professor Jonathan Pincus was a visiting researcher at the Commission on a part-time basis, following his retirement as the Commission's Principle Adviser Research. Professor Noel Gaston (Professor of Economics and Director of the Globalisation and Development Centre at Bond University) was also a visiting researcher during the year.

## **Research program consultations**

The Commission regularly engages in consultations with Government agencies, peak industry bodies, and union, environmental and community groups to obtain views on future directions for the Commission's supporting research program as well as on specific research topics. The views of State and Territory governments are gathered separately through periodic visits and other exchanges. Discussions are also regularly 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. The Commission

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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 July 2006 and informed the directions for the Commission's supporting research program over the subsequent two years (PC 2006a). Further rounds of consultations are currently being planned for the latter part of 2008.

### **Research collaboration**

The Commission continued to participate in collaborative research projects with academic institutions in 2007-08. The projects involved:

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) to develop 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 variety of health policy changes (other partner organisations comprise the NSW Health Department, the Health Insurance Commission, the ABS and the AIHW)
  - a dynamic population microsimulation model, with the capacity to track 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 Centrelink, the ABS and ten Australian Government departments)
- the Australian National University on setting priorities for services trade reform, involving new empirical estimates of barriers to services trade and expanding cross-sectional datasets on regulatory barriers to trade that can be applied in the analysis of the potential benefits of reform and to trade policy negotiations.

In September 2007 the results were released of a collaborative project between the Australian Bureau of Statistics and the Commission on the impact of innovation expenditure and innovation output on firm performance. The report is titled *Explorations of Innovation and Business Performance Using Linked Firm-Level Data* (Wong et al. 2007).

The Commission is also a member of the Global Trade Analysis Project (GTAP) Consortium based at Purdue University in the United States. Membership gives the Commission early access to database updates needed in its research, as well as priority access to model training and input to the future direction of model and

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database development. The Commission sits on the GTAP advisory board, providing direction to the Project along with 24 other international institutions.

## **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 19<sup>th</sup> East Asian Seminar on Economics, held in Seoul, Korea in June 2008, focused on the demographic transition in the Pacific Rim. 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, as well as on the Advisory Board of the Economics Department at Monash University. In 2008, he was made a National Fellow of the Institute of Public Administration Australia (IPAA).
- Other Commissioners are also members of various advisory boards and committees, including university and non-profit organisations. Robert Fitzgerald serves on a number of university advisory boards, including the Queensland University of Technology's Centre for Philanthropy and Nonprofit Studies Advisory Board, and the Australian Catholic University Community Engagement Advisory Committee. Dr. Neil Byron serves on the Editorial Boards of the International Journal of Agricultural Resources, Governance and Ecology, International Forestry Review (Oxford), the Journal of Forest Economics (published in Sweden), Forests, Trees and Livelihoods (published in Scotland). In 2005 he was appointed to the World Commission on Protected Areas of the IUCN (World Conservation Union). Mike Woods is the Commission's principal contributor to the China Australia Governance Program (CAGP), chairs the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in China in 2007-08. On 21 August 2007 he was awarded an Honorary Credential by the National Development and Reform Commission of China in recognition of his contributions to the fiscal reform theme within the CAGP.



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- Members of the Secretariat for the Review of Government Services are observers or members of various national and intergovernmental advisory groups developing priorities and strategies for improved reporting. It also provides expert advice to data collectors and users on concepts, definitions and classifications. Following the formation of new high level COAG working groups and the adoption by COAG of major reform agendas, the Secretariat has been invited by several COAG working groups and sub-groups to advise on performance and outcome reporting for government services and for Indigenous people.
  - The Commission's Chairman and senior staff have also participated in the East Asian Bureau of Economics Research's 'Public Sector Linkages Project'. This project, involving representatives from leading policy research institutes throughout East Asia, held a series of international meetings concerned with the development of better institutional foundations for structural reform in countries in the region.
  - Staff members are also involved in a range of research networking activities. Assistant Commissioner Ian Gibbs was a visiting researcher at the Groupe d'Economie Mondiale (GEM), Sciences Po, Paris, in early 2008. Other members of staff served on bodies such as the OECD's Working Party on Industry Analysis, the ABS Productivity Measurement Reference Group and the executive committee of the Comparative Analysis of Enterprise Data (CAED) international network.

### **Informing and communicating via the internet**

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries, and community access to its research outputs. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby enhancing opportunities for 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 also all posted on the website.

The Commission's website 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. An email alert service currently notifies more than 1400 recipients of significant events including report releases and the commencement and

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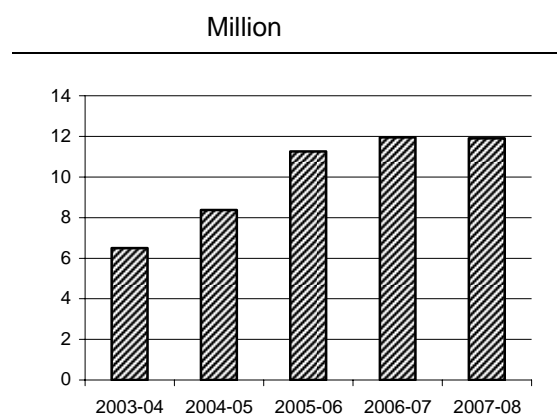
completion of inquiries. Additional email alerts are also sent to Commonwealth parliamentarians, the media, government departments and contacts in the States and Territories.

In the 12 months to June 2008 there were more than 125 000 external requests for the index pages of inquiries and commissioned research studies current in 2007-08. The projects of most interest were the inquiries on paid parental leave (35 600 requests), consumer policy (15 150 requests) and retail tenancy leases (12 480 requests). Other heavily accessed web pages were for the 2007 and 2008 Reports on Government Services (12 400 and 24 600 requests, respectively) and the 2005 and 2007 Overcoming Indigenous Disadvantage reports (19 300 requests in total). Speeches by the Commission's Chairman attracted more than 23 500 requests.

Even after an inquiry or project is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 1999 inquiry on Australia's gambling industries, the 2005 study of the economic implications of an ageing Australia and the 2005 study of the health workforce were each requested over 10 000 times.

The Commission's website received nearly 12 million file requests from external users in 2007-08, a similar level of activity to the previous financial year (figure 2.2).

Figure 2.2 **Website hits**



## 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 its contribution to public understanding and 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. The rolling program of surveys complements the feedback received through comments and submissions on draft reports, position papers, workshop papers and the views expressed during public hearings and consultations on its research program.

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In June 2007 the Commission undertook a survey of the quality and readability of its reports in order to identify areas in which its performance could be enhanced. Results from this survey were reported in detail within the 2006-07 Annual Report. The Commission has used the findings of this and earlier surveys to develop an improved framework for engaging with and responding to the range of potential participants in its work. As part of this process it has been giving attention to how it presents its analysis and conclusions, and to the readability of its reports.

The Steering Committee for the Review of Government Service Provision seeks feedback on the usefulness of the *Report on Government Services* every three years. A survey in 2007 found that 78 per cent of respondents were satisfied or very satisfied with the Report. Data comparability, quality and timeliness were identified as ongoing areas for improvement. Further details on the survey results are in appendix B.

In addition to its rolling program of surveys, the Commission monitors less formal sources of feedback on the public record. Views expressed about the value of the Commission's processes and the quality of its outputs can reflect agreement with, or opposition to, specific pieces of Commission analysis or advice. Nevertheless, the examples in box 2.3 help illustrate the breadth of support for the Commission's policy-advising contribution.

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 and the Commission provides a publication feedback card in reports for mailing comments.

The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and conduct of hearings. The number of participants providing feedback through these mechanisms nevertheless remains low: less than 50 respondents in total in 2007-08. Most of the feedback was positive. Feedback is in turn forwarded to authors, inquiry teams and management for consideration and action, where required.

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### Box 2.3 **Support for Commission activities: some recent examples**

Announcing the reappointment of Gary Banks as Chairman of the Commission on 16 April 2008, the Treasurer stated that 'the Commission has become a vital, independent source of advice to government on policy reforms needed to underpin Australia's long-term prosperity.'

Discussing the inquiry into improved support for parents with new born children, Deputy Prime Minister Julia Gillard described the Commission as

'... a very reputable body that has runs on the board for solving some of the hardest problems in the economic area that affect the nation.'

In January 2008 Professor Ross Garnaut invited the Commission to make a submission to the Garnaut Climate Change Review. In making this request he stated that

'As the Commonwealth's pre-eminent economic research organisation, the PC is well placed to provide analysis to the Review on the economics of addressing climate change in Australia.'

Labor party election policies announced intentions for the Commission to estimate the costs and benefits of harmonising key business regulation across jurisdictions, assess policies to support working parents, measure the contribution of community sector organisations, assess the jurisdictional distribution of net benefits from COAG regulation reforms, and review the telecommunications Universal Service Obligation.

Coalition election policies announced intentions for a Commission inquiry on the regulation of Australia's wild catch fisheries, annual benchmarking of the cost of essential infrastructure services for residential land releases, and a review of the dividend policies for capital city water utilities and the transparency of water billing.

Recent federal parliamentary committee reports have contained recommendations that the Commission be asked to look into the cost effectiveness and benchmarking of law enforcement bodies, wheat export marketing arrangements, and the long-term viability of the honey bee industry.

A range of policy analysts and commentators variously advocated that the Commission be asked to undertake reviews of the system for issuing taxi licences in States and Territories, gambling, the contribution of the community sector, state taxes, the costs and benefits of legal regulated availability of recreational drugs, the operation and effects of the FuelWatch scheme in Western Australia, competition in the Australian skiing industry, tax deductions for property investors, the operation of the telecommunications Universal Service Obligation and labour shortages in agricultural industries.

Several subject groups at the Australia 2020 Summit recommended that new work be undertaken by the Commission, that its role be expanded or that other bodies be formed using the Commission as a model.

Details are provided in appendix B.

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## Policy and wider impacts

All of the Commission's activities in its four output groups are directed at meeting the policy needs of government or otherwise fulfilling statutory requirements. The outcome objective against which the Commission's overall performance is 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.

Assessment of the Commission's performance is complicated by it being one contributor among many to any policy outcome. Even when its specific recommendations are not supported by government, the Commission 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 is best considered over a number of years. (These and other considerations in assessing the Commission's overall performance and across each of its four 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.

### Influence on government policy-making

Government decisions in response to the Commission's inquiry reports and commissioned research studies provide a tangible indication of their usefulness to the Government, Parliament and the broader community.

During the year, the Australian Government announced the following decisions on Commission reports:

- The Government accepted or expressed in-principle agreement to all of the Commission's formal recommendations in the Safeguards Inquiry into the Import of Pigmeat. The Government response noted that safeguard action was found not to be justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. (On 8 April 2008 the

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Government notified the WTO that it would not impose safeguard measures.) The response also acknowledged the Commission's view that existing government-funded programs should be properly evaluated before any further assistance to the pig industry is contemplated.

- In its response to the Commission's report on retail tenancy leases, the Commonwealth agreed (or agreed in-principle) to all but one of the Commission's recommendations. This included recommendations on the use of simple (plain English) language in all tenancy documentation; contact points for information on lease negotiation, lease registration and dispute resolution; harmonisation of retail tenancy legislation across jurisdictions; and the possible introduction of a code of conduct for the retail tenancy market as an alternative to prescriptive legislation. The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies.

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

With much of the Commission's reporting in 2007-08 focusing on cross-jurisdictional policy issues, its impact can also be assessed against COAG and ministerial council responses to its reports. For example:

- COAG have agreed to the establishment of a new national consumer policy objective and national consumer law in line with recommendations made by the Commission in its *Review of Australia's Consumer Policy Framework*.
- At its meeting of October 2 2008, COAG welcomed the Commission's final report on *Chemicals and Plastics Regulation* and announced its intention to implement a series of reforms which provide broad endorsement of the reform blueprint proposed by the Commission.
- In its communiqué of 26 March 2008, COAG also announced significant reforms in relation to the health workforce that implement recommendations made by the Commission in its 2005 report *Australia's Health Workforce*. In particular, it agreed to the establishment of a single national scheme for the registration and accreditation of health professionals by 1 July 2010.

Governments do not always accept the Commission's advice, at least initially. Nevertheless, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments typically adopted a substantial majority of recommendations and generally endorsed its findings (details are provided in appendix B and table B.7). Further, an assessment of the nature and extent of references made to material in the Commission inquiry reports suggests that those reports materially contribute to policy debates in Federal, State and Territory

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Parliaments, as well as more generally within the media and general community (appendix B).

Furthermore, the usefulness and influence of the Commission's work can extend over several years. Examples from the past year include the wide use of the Commission's 2004 inquiry report on the affordability of housing for first home buyers in Federal and State parliamentary debate, by the Reserve Bank of Australia (Richards 2008), and by academics (for example, Yates (2008) and Marks and Sedgwick (2008)), industry groups and the media. Other examples in 2007-08 include continuing use of the Commission's reports on gambling (1999), automotive assistance (2002) and TCF assistance (2003) in parliamentary and wider community debate (box B.2).

### **Contribution to parliamentary debate**

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2007-08 sittings of the *Federal Parliament*:

- 47 Members and 30 Senators referred to 32 different Commission reports or inquiries, or to the Commission's role in policy processes
- in around three-quarters of the 124 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 2 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on Indigenous disadvantage, first home ownership, science and innovation, road and rail infrastructure pricing and automotive assistance.

In addition, there were 85 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2007-08. The Commission was mentioned in the proceedings of 13 different committees, most prominently in proceedings of the Senate Select Committee on State Government Financial Management, the Senate Standing Committee on Rural and Regional Affairs and Transport, the Senate Select Committee on Housing Affordability in Australia, the Senate Standing Committee on Economics and the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government. The most frequent mentions were to the reports on consumer policy, first home ownership and local government revenue raising capacity.

Eighteen recent parliamentary committee reports referred to different Commission inquiries or research (table B.1). Five federal parliamentary committees endorsed Commission recommendations or proposed new tasks for the Commission.

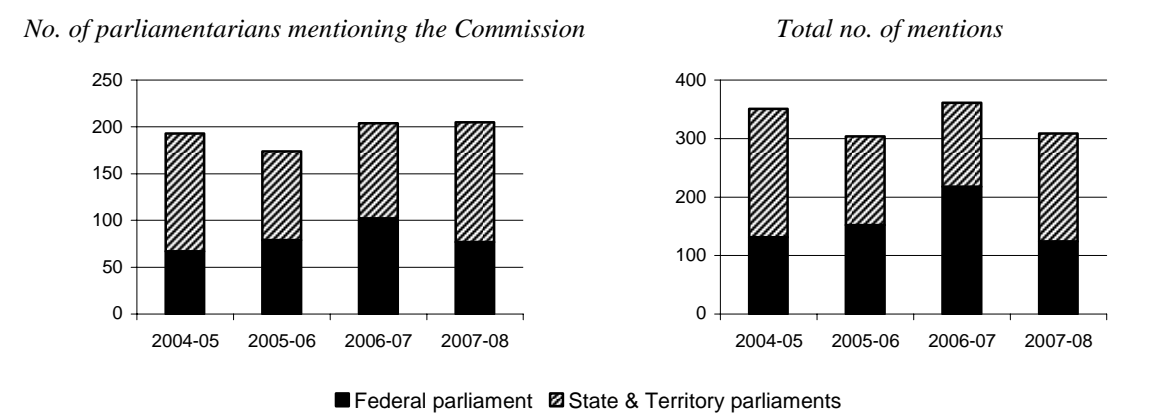
Some nineteen Parliamentary Library reports in 2007-08 referred to Commission inquiry and research reports, or to reports on government services (table B.2). Notably, extensive use was made of Commission reports within the Parliamentary Library Briefing Book on key issues for the 42<sup>nd</sup> Parliament. Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *State and Territory parliamentarians*. During the 2007-08 sittings of the eight State and Territory parliaments:

- 128 members referred to 25 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes
- in 75 per cent of the 185 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with no mentions that were critical of the particular finding, report or Commission attribute referred to
- around 45 per cent of mentions were to the Report on Government Services, with the Commission's reports on the gas access regime, gambling, road and rail infrastructure pricing, consumer policy and the National Reform Agenda also featuring prominently.

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

**Figure 2.3 Mentions of the Commission in Australian parliaments, 2004-05 to 2007-08**





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## 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:

- references made to a range of Commission analysis and findings by the Prime Minister, Treasurer, and several Ministers, as well as by the Opposition
- the announcement by the Commonwealth Government of the National Gas Law on 1 July 2008 which implemented recommendations made in the Commission's 2004 inquiry *Review of the Gas Access Regime* (Ferguson 2008)
- announcement on 18 July 2008 of the Australian Government's intention to introduce legislative amendments to the *Disability Discrimination Act* in the Spring sittings of Parliament to implement recommendations made by the Commission in its 2004 review of the Act. The Government stated that the key amendments will clarify the obligation of employers, service providers and others to remove discriminatory barriers for people with disabilities. It also stated that:

The amendments to the Act that have been recommended by the Productivity Commission will enhance the operation of Australia's federal anti-discrimination system. (McClelland and Shorten 2008)

- the widespread use being made of the Report on Government Services by central and line government agencies, state Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
- the use made by the Commonwealth Treasury, the OECD, COAG, State Governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW and others of a diverse range of Commission supporting research outputs, in particular its work on productivity analysis, urban and rural water use and labour force participation.

One continuing indicator of the degree of interest in the Commission's inquiry and other work is the many invitations to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a rolling program of briefings for State and Territory governments on the Commission's work, presentations and visits were made to New South Wales, Victoria and Queensland and visits to other jurisdictions are scheduled throughout 2008-09. The Commission also responded to requests for briefings to visiting officials and delegations from China, Indonesia, Japan, Canada, Thailand, Vietnam, Malaysia, Germany, South Africa, New Zealand, Korea, the United Kingdom, the United States, France, the OECD and IMF (table E.2).

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A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2007-08, 42 editorials in ten major metropolitan newspapers drew on the findings or recommendations in 17 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's 2008 report on modelling the effects of future assistance options in the automotive industry and its 2006 paper on the potential benefits of the National Reform Agenda together accounted for around one-quarter of all mentions. However, editorialists also drew on the analysis in a wide range of other inquiry and research reports (including those on gambling, science and innovation, consumer product safety, waste management, urban water, pigmeat safeguards, occupational health and safety, industry productivity estimates and analysis, government services and Indigenous disadvantage) or referred to the Commission's role in contributing to policy development. The Commission rated an average of nearly 240 mentions a month in electronic media and an average of 160 mentions a month in print media in 2007-08. The Commission's inquiry on paid maternity, paternity and parental leave, the 2008 Report on Government Services and the safeguards inquiry into the import of pigmeat received the most coverage.

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

## **Associated reporting**

Management and accountability information for 2007-08 is reported in appendix A. The audited financial statements for the Commission are contained in appendix G. In response to the suggestion by the Senate Standing Committee on Economics (2007), the coverage of compliance index at attachment A6 has been expanded to include specific reporting requirements in the *Productivity Commission Act*.

In association with this annual report, the Commission is preparing the following companion publication:

- *Trade & Assistance Review 2007-08*, 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 independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. 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 Assistant 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 2008 are shown in figure A.1.

### Commissioners

At 30 June 2008 there were nine Commissioners, including the Chairman. Six Commissioners were part-time appointments.

Mr Gary Banks AO was re-appointed as Chairman for a period of five years from 20 May 2008.

Commissioner Gary Potts resigned with effect from 30 April 2008 .

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Dr Matthew Butlin was appointed as a part-time Commissioner for three years from 1 May 2008. Dr Butlin had previously been a part-time Associate Commissioner working on the annual review of regulatory burdens on business in the primary sector. Earlier in his career, Dr Butlin held senior executive positions with leading Australian companies and the Australian Public Service. Dr Butlin has undergraduate and postgraduate degrees in economics from the Australian National University and the Massachusetts Institute of Technology respectively.

Since 30 June 2008, there has been one further Commissioner appointment. On 1 August 2008 Ms Louise Sylvan was appointed as a full time Commissioner for five years. Ms Sylvan had previously been Deputy Chair of the Australian Competition and Consumer Commission, and is a former Chief Executive of the Australian Consumers' Association (ACA) and President of Consumers International. Ms Sylvan has also served internationally on the OECD Consumer Policy Committee and nationally on the federal government's Expert Group in Electronic Commerce and the Australian Statistics Advisory Council to the ABS. Prior memberships also include six years on the Australian Prime Minister's Economic Planning Advisory Council and the Self-Regulation Task Force in 1999-2000.

Biographical information on Commissioners is available on the Commission's website and their terms of appointment are listed in table A1.1 of attachment A.

### **Associate Commissioners**

At 30 June 2008 two Associate Commissioner appointments were current (table A1.2 of attachment A1).

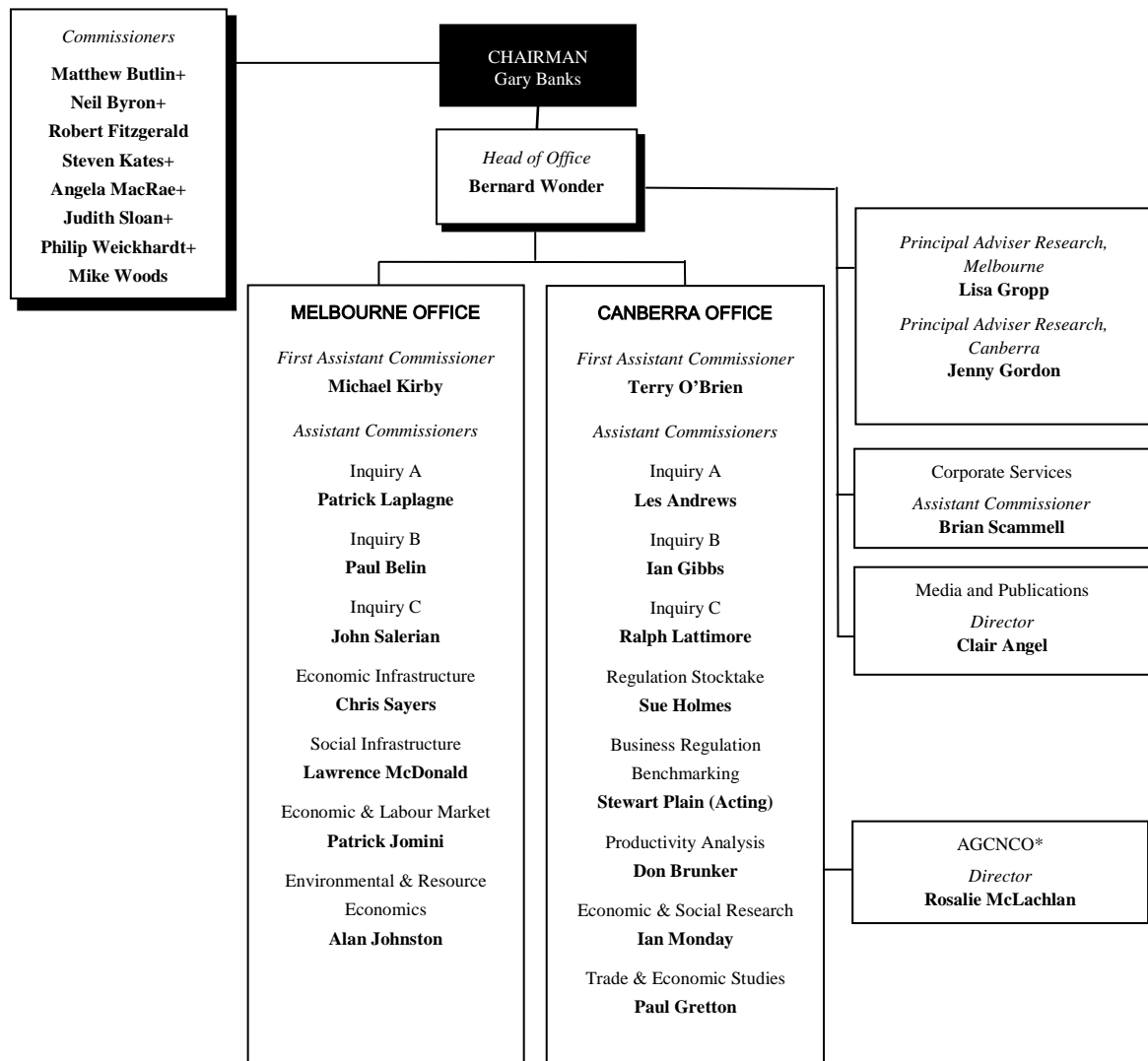
On 27 July 2007 Ms Siobhan McKenna was appointed on a part-time basis for the duration of the study into the regulation of chemicals and plastics. Ms McKenna was a partner at McKinsey and Company and is a member of the Advisory Board for the Australian Bureau of Meteorology and the Moderator of the Cranlana Colloquium. Ms McKenna has a long history of advising companies on the development of effective regulatory strategies in the healthcare, oil and gas, and telecommunications industries and has specific experience advising companies in the chemicals and plastics industry.

On 20 June 2008, Mr Robert Granger was appointed for the duration of the inquiry into government drought support. Mr Granger has extensive experience in the rural industry sector, including as General Manager of Queensland Fruit and Vegetable Growers Limited; previous Chairman of the Sugar Research and Development

Corporation, and the Banana Industry Protection Board; and as a member of the Rural Industries Research and Development Corporation.

Associate Commissioner appointments completed during 2007-08 are listed in table A1.3 of attachment A1.

Figure A.1 **Productivity Commission structure and senior staff, 30 June 2008**



+ Part-time Commissioners

\* Australian Government Competitive Neutrality Complaints Office

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## Staff

The average staffing level during 2007-08 was 199 compared to 202 in 2006-07.

The Commission recruited 35 staff during the year, including eight through its graduate recruitment program. Staff turnover was approximately 16 per cent.

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

## Outcome, outputs and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 24 through the provision of four mandated outputs, are summarised in table A.1. Performance information in respect of these outputs is provided in appendix B.

The Commission's outputs have been revised to reflect the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation as part of the revised administrative arrangements implemented following the 2007 Federal Election.

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

	<i>Budget 2007-08</i>	<i>Actual 2007-08<sup>a</sup></i>	<i>Budget 2008-09<sup>b</sup></i>
<b>Price of outputs</b>	\$'000	\$'000	\$'000
Output 1.1 – Government commissioned projects	22 369	22 411	20 133
Output 1.2 – Performance reporting and other services to government bodies	3 315	3 781	3 829
Output 1.3 – Competitive neutrality complaints activities	200	198	200
Output 1.4 – Supporting research and activities and statutory annual reporting	6 763	6 051	6 856
<b>Total price of outputs</b>	<b>32 647</b>	<b>32 441</b>	<b>31 018</b>
Revenue from government	32 389	32 389	30 753
Revenue from other sources	258	259	265
<b>Total resources</b>	<b>32 647</b>	<b>32 648</b>	<b>31 018</b>
	<i>2007-08</i>	<i>2007-08</i>	<i>2008-09</i>
Commissioner/staff years (number)	202	199	178

<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 for the 2008-09 Portfolio Budget Statements.



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## **Governance**

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

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

- establishing clear responsibilities for decision making and the undertaking of mandated activities
- ensuring accountability through the monitoring of progress, and compliance with legislative and other requirements, of mandated activities
- 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 addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee 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 Melbourne and Canberra Principal Advisers Research (alternate chairs), 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

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assigned by the Chairman. Responsibility extends to the quality, timeliness and resource use aspects of the assigned project or activity.

## **Accountability**

Management Committee's monitoring of the Commission is aided through the provision of regular reports covering staffing, expenditure, staff development and other operational matters.

Monthly Commission meetings — also attended by senior staff — are used to discuss and monitor progress across the Commission's four 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
- one Commissioner is designated with responsibility for competitive neutrality issues, and also reports to the Commission on a quarterly basis
- 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 contracted internal 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 four times a year.

## **Risk management and fraud control**

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

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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 2007-08. The Chairman's certification in respect of fraud control is at attachment A2.

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

### **Ethical standards**

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

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

The 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. Staff awareness and training sessions are offered in these topics.

### **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 four output groups.

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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 2007-08 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2006-07 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix B. In addition, the Senate Standing Committee on Economics (2008) commended the Commission for including a comprehensive compliance index against both FMA Act and PC Act reporting requirements in its 2006–07 Annual Report, in response to the committee's suggestion.

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 and publications:* The Commission's website continues to provide a valuable source of information about the current work of the Commission, its publications and other activities. A design 're-fresh' of publications and the website was completed to coincide with the 10<sup>th</sup> anniversary of the commencement of the Productivity Commission. During 2007-08 the Commission also completed the implementation of a website content management system.

*Information technology:* Maintenance and upgrade of Commission ICT infrastructure has continued including:

- enhancement of data storage to assist disaster recovery and server consolidation
- provision of a new server room as part of the Canberra office relocation, and upgrading of the Melbourne server room air-conditioning and power supply
- replacement of telecommunications equipment
- an upgrade of audiovisual equipment, mainly to improve videoconferencing.

*Human Resources:* During 2007-08 the Commission adopted a system of 'upwards appraisal' for Commissioners and Senior Executives, intended to enhance individual development and improve organisational performance, by providing another avenue for feedback from staff.

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*Internal Audit:* The Commission engaged an accounting firm, PKF, to conduct a program of internal audits over a three-year period commencing in 2006-07. Internal audits conducted in 2007-08 focused on asset management, fraud control and personnel systems and procedures. No control or compliance deficiencies involving unacceptable risk were identified.

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

- oversight of the Commission's internal audit program
- consideration of the annual financial statements, and associated issues
- scrutiny of the Commission's risk management, fraud control and business continuity plans
- reviews of relevant ANAO reports.

## **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.

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 by making available measures such as flexible working arrangements and a willingness to consider superannuation issues for some key employees approaching age 55.

The Commission reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Eight new employees were engaged during 2007-08 through the Commission's graduate recruitment program.

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An important input to workforce planning is the information obtained from departing employees through exit questionnaires and, in many cases, personal interviews on exit. Such information is considered regularly by Management Committee and applied to a variety of initiatives including conditions of service, developing employment agreements, and 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 21 Senior Executive Service (SES) employees are employed under Australian Workplace Agreements or individual determinations under the *Public Service Act 1999*. 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 Education, Employment and Workplace Relations.

Information on Commissioners and SES employees who received total remuneration of \$130 000 or more is set out in Note 12 to the Financial Statements (appendix G).

The Commission's non-SES employees are part of a collective agreement negotiated with the Commission's employees under the *Workplace Relations Act 2006*. The agreement has a nominal expiry date of 20 February 2010. The levels of remuneration and terms and conditions of employment of approximately 170 employees are covered by the Commission's collective agreement.

The workplace agreements place a strong emphasis on performance outcomes as the means of achieving remuneration increases. The agreements also include a number of provisions aimed at providing work/life balance and a satisfying and rewarding work environment for employees.

APS salary ranges which correspond to the Commission's broadbanded classifications are shown in the collective agreement which is available on the Commission's website.

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## 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 salary advancement and performance bonuses
- identify learning and development needs
- 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.

Training is conducted for new employees and new managers to ensure employee readiness for the appraisal round. Training for all employees in receiving performance related feedback was provided in 2007-08, as a follow-on to the training provided to managers in the previous year on delivering performance feedback.

Appraisal outcomes influence salary advancement and performance bonuses. Under the collective agreement, bonuses of 3 per cent of salary are paid to those 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 paid for 2007-08 are summarised in table A.2.

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**Table A.2 Performance bonuses paid for 2007-08**

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	4	6 028	1 507
Staff Level 2	5	5 082	1 016
Staff Level 3	15	20 336	1 355
Staff Level 4	16	28 454	1 778
SES	21	202 817	9 658
Principal Executive Officers	8	84 966	10 621
<b>Total</b>	<b>69</b>	<b>347 683</b>	<b>5 039</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.

The PCCC met on the three occasions during the year to discuss a range of workplace issues.

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

The Commission also undertakes a staff opinion survey every two to three years. The survey seeks staff views on a range of organisational and management issues, and is designed to help identify areas where current practices could be improved and ways to provide a better working environment for staff. The next survey is scheduled to be conducted in October 2008 and will have a stronger focus on employee engagement.

### **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
- oral and written communication.



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The need for learning and development can be employee identified (including through individual development plans settled with supervisors as part of performance appraisals), be supervisor encouraged or directed, or reflect organisation-wide initiatives.

Recorded expenditure on learning and development in 2007-08 was 2 per cent of the annual salary budget, the same as the previous year. This expenditure related to:

- 170 employees who undertook a total of 491 days of specific training and development
- 37 Staff Level 3 employees and 36 Staff Level 4 employees who attended two-day general development programs
- 7 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications.

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 staff observers from both offices. The Committee met three times during 2007-08.

The Commission has developed health and safety management arrangements in consultation with staff which came into effect in September 2007, in response to changes to OHS legislation.

New OHS activities during the year included:

- BeyondBlue seminars for managers on identifying and dealing with staff with depression
- the formal adoption of a Workplace Behaviour Policy, and associated staff briefings
- the installation of defibrillators in each office and training of first aid officers in their use
- acquisition of a new CPR training program
- a review of the Rehabilitation and Return to Work Guidelines.

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Ongoing OHS activities during the year included:

- Commission funded flu vaccinations (take up rate in 2007-08 was around 20 per cent)
- ergonomic work station assessments (84 were completed, including 31 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
- screen based equipment eyesight testing.

Training is provided for employees who have specific OHS related responsibilities.

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 Act 1991*. No notices under sections 29, 46 or 47 of that Act were given to the Commission during 2007-08.

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation rate. The Commission's rate for 2007-08 was assessed at approximately one-quarter 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 2007-08.

## **Workplace diversity**

The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity. This is facilitated through the commitment — in the Commission's collective agreement, equity and diversity plan and related policies — to promote workplace diversity.

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The Commission is implementing a plan to address possible barriers to the employment and promotion of females in the Commission.

A mature-age employees policy has been introduced to optimise the contribution and job satisfaction of mature-aged employees.

### **Commonwealth Disability Strategy**

The Commonwealth Disability Strategy is designed to help agencies improve access for people with disabilities to their services and facilities. Attachment A3 provides a summary of the Commission's performance in this area during 2007-08.

### **Financial performance**

The Productivity Commission is a prescribed agency under the *Financial Management and Accountability Act 1997*.

The annual Appropriation Acts provide the major source of revenue for the operations of the Commission.

The operating result for 2007-08 was a \$0.2 million surplus (\$3.3 million in 2006-07).

Additional funding was provided in the 2007-08 Budget to allow the Commission to benchmark the regulatory burden faced by business across jurisdictions, as part of an agreement made by the Council of Australian Governments (COAG) on 13 April 2007.

However, during 2007-08 funding was reduced to reflect an increased 'efficiency dividend' and the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation as part of the administrative arrangements implemented following the 2007 Federal Election.

The net result from these funding adjustments was that appropriations and other income increased marginally to \$32.6 million in 2007-08 (\$32.5 million in 2006-07).

Operating expenses also increased in 2007-08 to \$32.4 million (\$29.1 million in 2006-07). The major expenses in 2007-08 were \$23.0 million in respect of employee expenses, \$8.2 million relating to supplier payments, and \$1.2 million in asset depreciation, amortisation and related expenses.

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The Commission relocated its Canberra office from Belconnen to Civic during 2007-08. The movement between financial and non-financial assets in the balance sheet is largely a consequence of the associated fit-out (leasehold improvement).

Table A.1 provides a summary of financial and staffing resources by output. The audited financial statements for 2007-08 are shown in appendix G.

## **Other information**

### **Purchasing**

The Commission applies the *Commonwealth Procurement Guidelines*.

The Commission's purchases of goods and services during 2007-08 were consistent with the 'value-for-money' principle underpinning those guidelines.

### **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 2007-08, 23 new consultancy contracts were entered into involving total actual expenditure of \$458 332. The increase in expenditure in 2007-08 was primarily a consequence of a consultancy which conducted business focus groups across jurisdictions to provide data for the COAG commissioned study on Business Regulation Benchmarking. In addition, three ongoing consultancy contracts were active during the 2007-08 year, involving total actual expenditure of \$35 123. Table A.3 provides information on expenditure on consultants in the five years to 2007-08.

Further information on consultancies, as required by government reporting requirements, is provided in attachment A4.

Information on expenditure on contracts and consultancies is also available on the AusTender website [www.tenders.gov.au](http://www.tenders.gov.au).

Table A.3 **Expenditure on consultants, 2003-04 to 2007-08**

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	251	249	308	229	493

### Special payments

The Commission made a number of special payments during 2007-08. 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:* \$21 181 for annual membership payment for 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 multi-country 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:* \$26 400 to the Australian National University for an ARC partnership project on setting priorities for services trade reform; and \$16 500 to the University of Canberra for an ARC partnership project on assessing the social and fiscal policy implications of an ageing population.

*Conference sponsorships:* \$5500 for the Australian Agricultural and Resource Economics 52<sup>nd</sup> Annual Conference; \$7500 for the University of NSW 2007 Economic Measurement Group Workshop; \$3740 for the combined New Zealand Association of Economists and Australasian Meeting of the Econometric Society 08 Conference; \$27 500 for the 2008 Economic and Social Outlook Conference organised by Melbourne Institute (MIAESR); and \$7500 for the 36<sup>th</sup> Australian Conference of Economists 2007.

*Awards:* \$1200 to the top student for 2007, Economics Honours, at Monash University (R H Snape Productivity Commission Prize); \$1000 to the top student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize); \$350 to the top student, Faculty of Law and Management, La Trobe University.

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## Legal services

Total expenditure on legal services in 2007-08 was \$11 868. Further details are published on the Commission's website, in accordance with *Legal Services Directions 2005* issued by the Attorney-General.

## 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 Commission's current inquiry into government drought support arrangements is a further example of work being undertaken which will require integration of 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.

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Consequently, a broad range of views and circumstances are taken into account, in keeping with the ESD principle that ‘decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations’.

The 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 2007-08, the Commission recorded energy usage of 10 823 MJ/person/annum against the Government’s energy target for tenant light and power for office buildings, to be achieved by June 2011, of 7 500 MJ/person/annum.

### **Freedom of information**

No requests were received in 2007-08 for access to information under the *Freedom of Information Act 1982*. A statement encompassing formal reporting requirements is provided in Attachment A5.

### **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 \$260 144 was paid for advertising (including recruitment advertising) in 2007-08 to HMA Blaze Pty Ltd.

An amount of \$325 001 was paid to Taylor Nelson Sofres Pty Ltd to conduct a series of focus groups on the administrative and compliance costs for businesses stemming from government business registration requirements, to inform the Commission’s Business Regulation Benchmarking study.

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## **Publications and submissions**

Appendix F lists all the Commission's publications in 2007-08.

## **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 A6.

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 1428  
CANBERRA CITY ACT 2601  
Telephone: (02) 6240 3239  
Facsimile: (02) 6240 3300



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## Attachment A1

### Commissioner and employee statistics

Table A1.1 **Chairman and Commissioners, 30 June 2008**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2008	19 May 2013
Dr M Butlin (M) (p/t)	1 May 2008	30 Apr 2011
Dr R N Byron (M) (p/t)	17 Apr 2007	16 Apr 2012
Mr R Fitzgerald AM (C)	27 Jan 2004	26 Jan 2009
Dr S I Kates (M) (p/t)	17 Apr 2006	16 Apr 2009
Ms A MacRae (M) (p/t)	19 Mar 2007	18 Mar 2010
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 2008**

	<i>Inquiry/Study</i>	<i>Period of appointment<sup>a</sup></i>	
		<i>From</i>	<i>To</i>
Ms S McKenna	Regulation of chemicals and plastics	27 Jul 2007	27 Aug 2008
Mr R G Granger	Government drought support	20 Jun 2008	19 Apr 2009

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

**Table A1.3 Part-time Associate Commissioners completing appointments during 2007-08**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Dr M W Butlin	Annual Review of Regulatory Burdens on Business	15 Mar 2007	30 Nov 2007
Prof C Walsh	Local Government Revenue Raising Capacity	15 Mar 2007	30 April 2008

**Table A1.4 Employees by location and gender, 30 June 2008**

<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	1	1	2	1	1	2	2	2	4
SES Band 1	0	8	8	1	8	9	1	16	17
Staff Level 4	9	14	23	6	17	23	15	31	46
Staff Level 3	17	10	27	4	10	14	21	20	41
Staff Level 2	17	10	27	4	10	14	21	20	41
Staff Level 1	17	6	23	8	3	11	25	9	34
<b>Total<sup>b</sup></b>	<b>61</b>	<b>49</b>	<b>110</b>	<b>24</b>	<b>50</b>	<b>74</b>	<b>85</b>	<b>99</b>	<b>184</b>
Corresponding totals at 30 June 2007 <sup>a</sup>	59	50	109	30	60	90	89	110	199

<sup>a</sup> Totals exclude 8 inoperative employees at 30 June 2007. <sup>b</sup> Totals exclude 7 inoperative employees at 30 June 2008; 2008 totals also include 1 acting SESB1, 2 acting SL4s, 4 acting SL3s and 2 acting SL2s.

**Table A1.5 Employees by employment status and gender, 30 June 2008**

<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	2	0	2	2	0	2	4	0	4
SES Band 1	1	0	1	16	0	16	17	0	17
Staff Level 4	10	5	15	29	2	31	39	7	46
Staff Level 3	17	4	21	19	1	20	36	5	41
Staff Level 2	16	5	21	20	0	20	36	5	41
Staff Level 1	20	5	25	9	0	9	29	5	34
<b>Total<sup>b</sup></b>	<b>66</b>	<b>19</b>	<b>85</b>	<b>96</b>	<b>3</b>	<b>99</b>	<b>162</b>	<b>22</b>	<b>184</b>
Corresponding totals at 30 June 2007 <sup>a</sup>	71	18	89	106	4	110	177	22	199

<sup>a</sup> Totals exclude 8 inoperative employees at 30 June 2007. <sup>b</sup> Totals exclude 7 inoperative employees at 30 June 2008

**Table A1.6 Employees by level and reason for separation, 2007-08**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity</i>			<i>Other</i>	<i>Total</i>
				<i>Retirement</i>	<i>VRP<sup>a</sup></i>			
SES	0	0	2	0	0	0	2	
Staff Level 4	0	1	6	0	0	0	7	
Staff Level 3	1	4	7	0	0	0	12	
Staff Level 2	2	2	4	0	0	0	8	
Staff Level 1	0	0	1	1	0	0	2	
<b>Total</b>	<b>3</b>	<b>7</b>	<b>20</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>31</b>	
Corresponding totals at 30 June 2007	0	8	22	0	1	6	37	

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



22 August 2008

**Annual Report 2007-08 – Fraud Control Certification**

In accordance with Guideline 2.8 of the *Commonwealth Fraud Control Guidelines 2002* (the Guidelines), issued pursuant to Regulation 19 of the *Financial Management and Accountability Regulations 1997*, I hereby certify that I am satisfied that:

- the Productivity Commission has prepared fraud risk assessments and has in place a fraud control plan that complies with the Guidelines;
- appropriate fraud prevention, detection and investigation and reporting procedures and processes are in place; and
- annual fraud data has been collected and reported that complies with the Guidelines.

A handwritten signature in black ink, appearing to read 'G. Banks'.

Gary Banks AO

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## Attachment A3

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

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

<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 (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.</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>• website conforms to mandatory disability access requirements</li><li>• portable hearing loop available for public hearings</li><li>• checklist on accessibility at venues.</li></ul>
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	100 per cent available on website. The 'Accessibility' page on the website was updated in 2007-08.

(continued next page)

## 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 Collective 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: <ul style="list-style-type: none"> <li>• accessible electronic formats</li> <li>• accessible formats other than electronic.</li> </ul>	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press.  100 per cent available.  None requested.
	Average time taken to provide accessible information in: <ul style="list-style-type: none"> <li>• electronic format</li> <li>• formats other than electronic</li> </ul>	Immediate.  Dependent on request, none received to date. Information has been sourced on the procedures for requesting alternative formats such as Braille and audio and is available should a request be received.
	Agency recruiters and managers apply the principle of 'reasonable adjustment'	Percentage of recruiters and managers provided with information on 'reasonable adjustment'
Training and development programs consider the needs of employees with disabilities	Percentage of training and development programs that consider the needs of employees with disabilities	Training nomination forms include a section requesting information on the additional needs of employees. It is monitored by the training administrator. No assistance was requested during 2007-08.

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<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Training and development programs include information on disability issues as they relate to the content of the program	Percentage of training and development programs that include information on disability issues as they relate to the program	Induction programs include information on these issues including our Access and Equity and Disability Action Plan.
Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by employees relating to disability issues	Established complaints/grievance mechanisms, including access to external mechanisms, in operation	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 2007-08.

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## Attachment A4

### 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
- a need for specialised professional services including benchmarking of its activities.

### Procedures

The Commission's selection procedures follow the value-for-money objectives of the *Commonwealth Procurement Guidelines*. Under the *Productivity Commission Act 1998*, if the estimated value of a consultancy exceeds the amount prescribed by the regulations (\$80 000), the Chairman must ensure that an open, competitive tendering process is used in selecting the consultant.

### Purposes

The main purposes for which consultants were engaged in 2007-08 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 2007-08 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 2007-08 valued at \$10 000 or more

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<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract Amount (3)</i>	<i>Selection Process (1)</i>	<i>Justification (2)</i>
<b>Government-commissioned projects</b>				
Taylor Nelson Sofres Aust P/L	Conducting business focus groups across all jurisdictions to provide data for the COAG study on Business Regulation Benchmarking	325 001	1	A
Acil Tasman	Estimation of compliance costs of business registration regulation	60 049	2	B
<i>Government-commissioned projects — total</i>		<i>385 050</i>		
<b>Total consultancies</b>		<b>385 050</b>		

### **1 Procurement Method**

1. Open tender
2. Select tender
3. Direct sourcing
4. Panel

### **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.

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## **Attachment A5**

### **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 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. Also, the Commission periodically meets with academics in various cities for the same purpose.

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 and Territory 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 policy.

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## Categories of documents

Principal categories include:

- commissioned projects records including information circulars, issues papers, project 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
- administrative, policy, procedural and contractual documents, relating to information technology, human and financial resource management
- legal advice and other legal documents
- Freedom of Information documents
- media releases
- mailing lists
- speeches
- consultancy documents
- service charters
- parliamentary questions and answers
- submissions to inquiries undertaken by other organisations.

## Facilities for access

Information circulars, issue papers, project guidelines and draft reports are sent to interested parties and project 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 project 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

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- 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 A6

### Compliance index

#### *Compliance with the Joint Committee of Public Accounts and Audit requirements for annual reports*

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### ***Compliance with the Productivity Commission Act***

The annual report is also prepared in accordance with the general provisions of s.10 of the Productivity Commission Act, as well as the following specific requirements:

s.10(1) Commission operations	chapter 2 and appendix A
s.10(2) matters referred to the Commission	appendix C
s.10(4) competitive neutrality complaints	p. 31 and appendix D

In association with this annual report, the Commission is preparing one companion publication:

- *Trade & Assistance Review 2007-08*

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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 analyses from a community-wide perspective.

The Commission's four output streams comprise public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, competitive neutrality complaints activities, and 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 2007-08.

### Objectives for performance assessment

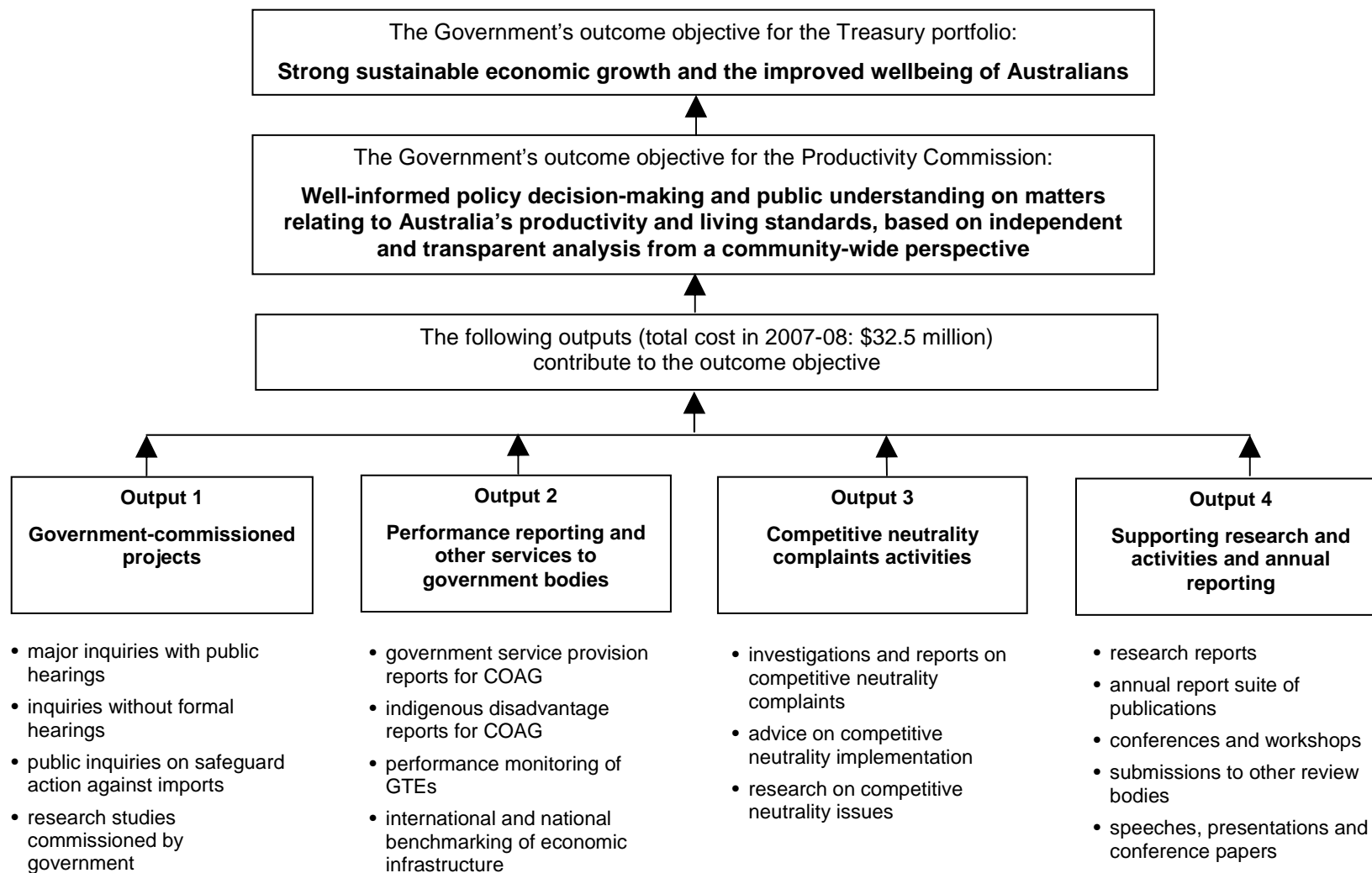
The Government's single outcome objective for the Commission against which the Commission's overall performance is to be assessed is:

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, these activities have been classified into four outputs:

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

Figure B.1 **Productivity Commission outcome/output framework 2007-08**





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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:

to improve the wellbeing of the Australian people by providing sound and timely advice to the Government, based on objective and thorough analysis of options.

The Commission's outputs have been adjusted in the current reporting period to reflect the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation as part of the revised administrative arrangements following the 2007 Federal Election.

### **Commission activities**

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

- undertaking individual projects specifically commissioned by government (Output 1)
- meeting standing research, investigatory and advisory functions nominated by government (Outputs 2 and 3)
- 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 policy priorities of government (Output 4).

Commissioned projects of an inquiry and research nature relating to regulatory issues are included in Output 1.

#### *Commissioned projects*

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 often narrower

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in scope, and required in shorter timeframes, than inquiries. They typically involve less public interaction than inquiries and no formal public hearings. 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.

### *Standing functions*

The Government has established a number of standing research, investigatory and advisory functions 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 Indigenous disadvantage, and related research reports
- performance monitoring and related research reports on government trading enterprises that fulfil the commitment for the Commission to continue the work of the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises
- national and international benchmarking of key economic infrastructure industries, a standing research direction from the Government. The Commission has some discretion in the choice of industry and timing, guided by an assessment of the Government's policy needs
- 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
- 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.

### *Supporting research*

The Commission also 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 draws 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 two 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 (box B.1). Subsequent sections of this appendix report against these indicators for each of its four outputs. Feedback surveys undertaken, 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>	
<i>Outputs</i>	<i>Key indicators</i>
Government-commissioned projects	Projects, reports and associated activities: <ul style="list-style-type: none"> <li>• of a high quality</li> <li>• useful to stakeholders</li> <li>• timely.</li> </ul>
Performance reporting and other services to government bodies	
Competitive neutrality complaints activities	
Supporting research and activities and statutory annual reporting	

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First, 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.

Second, 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. Examples from the past year demonstrate the 'shelf life' of a variety of Commission reports in policy formulation and debate (box B.2).

Third, the Commission has to give priority to certain outputs and allocates 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 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 and 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.

Fourth, 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. All inquiry reports in 2007-08 were tabled within the statutory period.

While research studies specifically commissioned by the Government do not have to be tabled in Parliament, these reports are generally released 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 four outputs against the indicators agreed under the Government's accrual-based outcomes and outputs framework.

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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.

- The Commission's 1999 inquiry report on gambling remains a prime reference source in parliamentary, media and community debate on gambling issues.
  - The Commission's methodology and findings continue to be cited as an authoritative source by other researchers. For example, a recent report on the social and economic impact of gambling in Tasmania (SACES 2008) drew heavily on the findings of the 1999 report and stated that:

Despite now being ten years old, the Productivity Commission's inquiry into Australia's gambling industries remains the most comprehensive attempt to draw together costs and benefits of gambling. (p. 232)
  - The Commission received more than 10 000 requests in the year for web pages for the inquiry.
  - The report was referred to in federal and state and territory parliamentary debate on 12 separate occasions in 2007-08.
  - On 3 July 2008 COAG announced that it had asked the Commonwealth Treasurer to arrange for the Commission to update its report.
- Past Commission reports on the Automotive Industry (IC 1997), Automotive Assistance (PC 2002a) and TCF Assistance (PC 2003) continue to feature prominently in discussions about future assistance options in these industries. For example, in the Background Paper for the 2008 Review of Australia's TCF Industry, headed by Professor Roy Green, the Commission's 2003 report on the industry was extensively used to provide factual detail on industry structure and past policy developments (DIISR 2008).
- Estimates of the prevalence and cost of consumer product-related injury, produced by the Commission in its 2006 study of *Consumer Product Safety*, were used as a key reference in a baseline study of consumer product-related accidents by Access Economics for the Ministerial Council on Consumer Affairs (Access Economics 2007). They were also referred to by the Australian Consumers' Association as an authoritative source in a major report on consumer product related injury (CHOICE 2008).
- The Commonwealth Government's announcement of the National Gas Law on 1 July 2008 implements recommendations made in the Commission's 2004 inquiry *Review of the Gas Access Regime* (Ferguson 2008).
- The Parliamentary Library Research Paper of December 2007 on recent developments in the Job Network drew extensively on the analysis and findings in the Commission's 2002 inquiry report, *Independent Review of the Job Network*.
- On 18 July 2008, the Australian Government announced that it would introduce legislative amendments to the *Disability Discrimination Act* in the spring sittings of Parliament to implement recommendations made by the Commission in its 2004 review of the Act (McClelland and Shorten 2008).

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## 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 the views expressed during public hearings and consultations on its research program.

The results of past surveys were reported in previous annual reports of the Commission and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises, the Report on Government Services and the quality and usefulness of the Commission's supporting research program.

### *Recent survey on Commission reports*

In June 2007 the Commission undertook a survey of the quality and readability of its reports in order to identify areas in which its performance could be enhanced. The survey was sent to participants in six recent inquiries and government-commissioned research studies, as well as to people regularly receiving Commission reports. More than 1100 survey forms were sent and a response rate of 37 per cent was achieved.

Ninety five per cent of respondents indicated that they found the information and analysis in Commission reports to be useful or very useful. Although variations were evident across reports and respondent groups, Commission reports overall were accorded ratings of 'well' or 'very well' on:

- coverage of issues, contributing to understanding and value as a source of reference material — by between 84 and 89 per cent of respondents
- presenting clear arguments and analytical support for the recommendations — by around three quarters of respondents
- adequately taking the interests of different groups into account — by 70 per cent of respondents
- recognising relevant social and environmental impacts, presenting different points of view and assessing them objectively — by around two-thirds of respondents, although these categories also typically attracted relatively high 'neutral/unable to comment' responses
- providing sufficient details of implementation arrangements and making appropriate use of quantitative modelling — by 58 per cent of respondents on

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each indicator, although around one third of respondents felt neutral or unable to comment on them.

Australian Government agencies, industry associations and university/research respondents typically rated the Commission's performance across these indicators more highly than other groups.

Respondents were also asked to rate various readability aspects of Commission reports. Eighty one per cent of respondents indicated that Commission reports were generally reader friendly and aspects such as the use of tables, charts and jargon and page presentation rated similarly well. While 83 per cent of respondents rated the length of overviews in reports as satisfactory, 40 per cent considered the reports themselves generally to be too long.

In the current reporting year the Commission has assessed these survey results and their implications for the ways in which it engages with and responds to the views of the range of potential participants in its work. It has also used the results in assessing the ways it presents its analysis and conclusions and in considering ways in which it can enhance the readability of its reports. In early 2008 the Commission commenced implementing a number of changes to the way it presents its reports in light of the responses outlined above. A further round of feedback surveys is scheduled for the second half of 2008.

### *Survey on the Report on Government Services*

The Steering Committee for the Review of Government Service Provision seeks feedback on the usefulness of the Report on Government Services every three years and uses the feedback to increase the accountability of the Review itself. A survey of more than 500 users, undertaken in February 2007, achieved a response rate of 48 per cent, a significant improvement on that achieved in previous years. Seventy eight per cent of respondents were satisfied or very satisfied with the Report. Readers valued the performance information in the service-specific chapters, and the supporting introductory chapters and statistical appendix were widely used. An important message from the survey was that improvements to the Report should focus on data issues. Data quality and usefulness received the lowest satisfaction ratings, and improved comparability, better data quality and more timely data were identified as areas needing improvement. The survey results and the constructive suggestions made by many survey respondents are informing the work of the Steering Committee. More detailed survey results were reported in last year's annual report.

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### *Other feedback*

As noted in chapter 2, feedback opportunities provided through email, on-line survey forms, and survey forms included in publications or issued to participants in the Commission's public hearings remained little used in 2007-08. Much of the feedback received through these mechanisms this year was positive. Comments 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 2007-08 were the Commission's reports on Indigenous disadvantage, first home ownership, science and innovation, road and rail infrastructure pricing and automotive assistance. As noted in chapter 2, 47 Members of the House of Representatives and 30 Senators collectively referred to 32 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2007-08 parliamentary proceedings. Five parliamentary committees either endorsed Commission recommendations or recommended new tasks for the Commission during the year.

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

- Eighteen recent parliamentary committee reports referred to different Commission inquiries or research (table B.1).
- People appearing at the hearings of parliamentary committees in 2007-08 referred to Commission outputs in more than 24 different topic areas.
- Research material provided to parliamentarians during 2007-08 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 19 different Commission outputs (table B.2). These included 14 inquiry and other commissioned research reports, the Report on Government Services and several reports from the Annual Report Series. Extensive use of Commission outputs was apparent within the Parliamentary Library Briefing Book on key issues for the 42<sup>nd</sup> Parliament.

### *Use of Commission Reports by the Audit Office*

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2007-08 the ANAO cited a number of findings from the Commission's 2005 report on Australia's health workforce in Audit Report No. 25, *Administering Round the Clock Medicare Grants* and in Audit Report No. 34,



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*Administration of the Pathology Quality and Outlays Memorandum of Understanding*. The latter ANAO report also referred to findings from the Commission's 2006 report on standard setting and laboratory accreditation. The reporting framework and various findings from the Report on Government Services and Overcoming Indigenous Disadvantage report were also cited in Audit Report No. 10, *Whole of Government Indigenous Service Delivery Arrangements* and in Audit Report No. 29, *Parent School Partnerships Initiative*.

Other Commission outputs referred to in ANAO reports in 2007-08 were the 2001 inquiry report on certain superannuation legislation, the 2002 inquiry report *Review of Automotive Assistance*, the *Report on Government Services 2007* and various editions of the *Trade & Assistance Review*.

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
House of Representatives Standing Committee on Economics, Finance and Public Administration, <i>Australian manufacturing: today and tomorrow: Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom</i> , July 2007	Research Report, <i>Public Support for Science and Innovation</i> , March 2007; Annual Report Series, <i>Trade &amp; Assistance Review</i> , 2005-06 and 2000-01; Research Paper, <i>Trends in Australian Manufacturing</i> , April 2003; Staff Working Papers, <i>Econometric Modelling of R&amp;D and Australia's Productivity</i> , April 2006 and <i>Can Australia Match US Productivity Performance?</i> , March 2007
House of Representatives Standing Committee on Transport and Regional Services, <i>The Great Freight Task: Is Australia's transport network up to the challenge?</i> , July 2007	Inquiry Report, <i>Road and Rail Freight Infrastructure Pricing</i> , December 2006; Inquiry Draft Report, <i>Tasmanian Freight Subsidy Arrangements</i> , September 2006; Chairman's speech 28 April 2006; <i>Supplement to Inquiry Report Progress in Rail Reform</i> , November 1999
House of Representatives Standing Committee on Science and Innovation; <i>Between a rock and a hard place: The science of geosequestration</i> , August 2007	<i>Submission to the Prime Ministerial Task Group on Emissions Trading</i> , March 2007
Senate Standing Committee on Employment, Workplace Relations and Education, <i>Workforce challenges in the transport industry</i> , August 2007	Inquiry Report, <i>Road and Rail Freight Infrastructure Pricing</i> , December 2006
Parliamentary Joint Committee on Corporations and Financial Services, <i>The structure and operation of the superannuation industry</i> , August 2007	Inquiry Report, <i>Review of the Superannuation Industry (Supervision) Act 1993 and Certain other Superannuation Legislation</i> , December 2001
Senate Standing Committee on Legal and Constitutional Affairs, <i>Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007 and four related bills concerning the Northern Territory National Emergency Response</i> , August 2007	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2005</i>
Joint Standing Committee on Migration, <i>Temporary visas ... permanent benefits: Ensuring the effectiveness, fairness and integrity of the temporary business visa program</i> , August 2007	Mentions supporting research on skill shortages in Australia
House of Representatives Standing Committee on Environment and Heritage, <i>Sustainability for survival: creating a climate for change – Inquiry into a sustainability charter</i> , September 2007	Inquiry Report, <i>Review of National Competition Policy Reforms</i> , February 2005

Senate Standing Committee on Employment, Workplace Relations and Education, *Higher Education Endowment Fund Bill [Provisions], Higher Education Endowment Fund (Consequential Amendments) Bill 2007 [Provisions]*, September 2007

Senate Standing Committee on Community Affairs, *A decent quality of life – Inquiry into the cost of living pressures on older Australians*, March 2008

Senate Standing Committee on Economics, *National Market Driven Energy Efficiency Target Bill 2007 [2008] and Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008*, May 2008

Senate Standing Committee on Environment, Communications and the Arts, *Inquiry into the effectiveness of the broadcasting codes of practice*, June 2008

Senate Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing affordability in Australia*, June 2008

Senate Standing Committee on Economics, *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008*, August 2008

Senate Standing Committee on Community Affairs, *National Health Amendment ((Pharmaceutical and Other Benefits—Cost Recovery) Bill 2008*, August 2008

Senate Standing Committee on Economics, *Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill 2008*, September 2008

Senate Standing Committee on Environment, Communications and the Arts, *Management of Australia's Waste Streams (including consideration of the Drink Container Recycling Bill 2008)*, September 2008

Senate Select Committee on State Government Financial Management, *Select Committee on State Government Financial Management: Report*, September 2008

Research Report, *Public Support for Science and Innovation*, March 2007

Research Report, *Economic Implications of an Ageing Australia*, April 2005

Inquiry Report, *The Private Cost Effectiveness of Improving Energy Efficiency*, August 2005

Inquiry Report, *Broadcasting*, March 2000

Inquiry Report, *First Home Ownership*, March 2004; Research Report, *Assessing Local Government Revenue Raising Capacity*, April 2008; Steering Committee for the Review of Government Service Provision, *Report on Government Services 2008*, April 2008

Annual Report Series, *Trade & Assistance Review*, 2006-07

Inquiry Report, *Cost Recovery by Government Agencies*, March 2002

Inquiry Report, *Review of Australia's Consumer Policy Framework*, April 2008

Inquiry Report, *Waste Management*, October 2006

Research Paper, *Financial Performance of Government Trading Enterprises 2004 to 2006*, June 2008

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**Table B.2 Parliamentary Library use of Commission outputs in 2007-08**

<i>Parliamentary Library output 2007-08</i>	<i>Commission output used</i>
<i>Media ownership deregulation in the United States and Australia: in the public interest?, Research Paper No. 1, July 2007</i>	<i>Inquiry Report, Broadcasting, March 2000</i>
<i>Workplace relations reforms: a chronology of business, community and government responses, Background Note, August 2007</i>	<i>Inquiry Report, Review of National Competition Policy Reforms, February 2005</i>
<i>Tax Laws Amendment (2007 Measures No. 5) Bill 2007, Bills Digest No. 42, September 2007</i>	<i>Research Report, Public Support for Science and Innovation, March 2007</i>
<i>Practice nursing in Australia, Research Paper No. 10, September 2007</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>National Health Amendment (Pharmaceutical Benefits) Bill 2007, Bills Digest No. 40, September 2007</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>A review of developments in the Job Network, Research Paper No. 15, December 2007</i>	<i>Inquiry Report, Independent Review of the Job Network, June 2002</i>
<i>Specific purpose payments and the Australian federal system, Research Paper No. 17, January 2008</i>	<i>Annual Report Series, Annual Report 2004-05, September 2005</i>
<i>Parliamentary Library Briefing Book: Key Issues for the 42nd Parliament, Briefing Book, January 2008</i>	<i>Research Reports, Economic Implications of an Ageing Australia, April 2005, Potential Benefits of the National Reform Agenda, December 2006 and Australia's Health Workforce, December 2006; Inquiry Reports, Broadcasting, March 2000 and First Home Ownership, March 2004; Accelerated Report, Safeguards Inquiry into the Import of Piguemeat, December 2007; Steering Committee for the Review of Government Service Provision, Report on Government Services 2007</i>
<i>Tax Laws Amendment (2008 Measures No. 1) Bill 2008, Bills Digest No. 62, February 2008</i>	<i>Annual Report Series, Trade and Assistance Review 2005-06, April 2007</i>
<i>Indigenous Socioeconomic Indicators, Background Note, February 2008</i>	<i>Steering Committee for the Review of Government Service Provision, Report on Government Services 2007 and Report on Government Services 2008</i>
<i>Infrastructure Australia Bill 2008, Bills Digest No. 69, March 2008</i>	<i>Inquiry Report, Review of National Competition Policy Reforms, February 2005</i>

*Hospital Waiting Lists Explained*, Background Note, March 2008

*Interstate Road Transport Charge Amendment Bill 2008*, Bills Digest No. 88, March 2008

*Road Transport Charges (Australian Capital Territory) Repeal Bill 2008*, Bills Digest No. 89, March 2008

*Health workforce: a case for physician assistants?*, Research Paper No. 24, March 2008

*Australia's natural gas: issues and trends*, Research Paper No. 25, April 2008

*Budget Review 2008-09*, Research Paper No. 31, May 2008

*National Health Amendment (Pharmaceutical and Other Benefits — Cost Recovery) Bill 2008*, Bills Digest No. 125, June 2008

*Disability support and services*, Background Note, June 2008

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2008*, April 2008

Inquiry Report, *Road and Rail Freight Infrastructure Pricing*, December 2006

Inquiry Report, *Road and Rail Freight Infrastructure Pricing*, December 2006

Research Report, *Australia's Health Workforce*, December 2006

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

Research Report, *Public Support for Science and Innovation*, March 2007; Staff Research Paper, *Statistical Analysis of the Use and Impact of Government Business Programs*, 2001; Inquiry Report, *Cost Recovery by Government Agencies*, August 2001; Inquiry report, *Review of Australia's Consumer Policy Framework*, April 2008.

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

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2008*

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## Other evidence

In addition to the performance indicators for 2007-08 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In announcing the reappointment of Gary Banks as Chairman of the Commission on 16 April 2008, the Treasurer stated:

... the Commission has become a vital, independent source of advice to government on policy reforms needed to underpin Australia's long-term prosperity... The Productivity Commission is a key advisory body on all aspects of microeconomic reform and regulation, and its analysis covers all levels of government and all sectors of the economy. (Swan 2008)

- COAG requested in its communiqué of 3 July 2008 that the Commission undertake reviews of Australia's anti-dumping system and parallel import restrictions on books, and that the Commonwealth Treasurer arrange for the Commission to update its 1999 gambling inquiry.
- As part of its Social Inclusion Agenda, the Government has proposed that the Commission undertake a study of the community sector in Australia to better understand the contribution it makes and to also identify opportunities for productivity gains in the sector (Stephens 2008).
- In the lead-up to the November 2007 federal election, both major political parties proposed new work for the Commission. The then federal Opposition proposed a number of tasks for the Commission including that it:
  - examine the effectiveness of different models to improve the support for working parents with new born children, their likely impact on work and family preferences and workforce participation more generally (Rudd 2007)
  - assess the distribution of the net benefits of COAG regulation reforms between the Commonwealth and the States as a basis for payments from a pool of regulatory reform incentive payments (Emerson 2007)
  - review the operation of the telecommunications Universal Service Obligation and provide options on the future funding and structure of the regime (Conroy 2006).

The then Government proposed that the Commission would be asked to:

- establish, publish and annually update benchmarks for the cost of providing essential services infrastructure for major new residential development releases, including roads, sewerage and water

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- undertake an inquiry on the regulation of Australia’s wild catch fisheries
  - review the current dividend policy of every capital city water utility, recommend an appropriate dividend policy for each of them and report annually on implementation, as well as report annually on State and Territory Governments’ progress in delivering transparency in the pricing of urban water to customers (Coalition Government 2007a,b,c).
  - The announcement of the Commission’s inquiry into paid maternity, paternity and parental leave in February 2008 was welcomed variously by the Human Rights and Equal Opportunity Commission, the Business Council of Australia, the Sex Discrimination Commissioner, the Australian Democrats, the Federal Opposition and others. Deputy Leader of the Opposition Julie Bishop stated that ‘the Commission is in a position to do the economic analysis’. In announcing the commencement of the inquiry, the Australian Government stated that:

The Productivity Commission is uniquely placed to advise the Government on the best way to balance economic considerations with the aspirations of working families. (Gillard, Macklin and Swan 2008)
  - Parliamentary Committees continued to draw on Commission reports to inform their work and to recommend new work for the Commission. For example:
    - In its inquiry into the future impact of serious and organised crime on Australian society, the Parliamentary Joint Committee on the Australian Crime Commission (2007, p. xii) recommended in September 2007 that the Commission be asked to inquire into the cost effectiveness and benchmarking of law enforcement bodies and current national arrangements to address serious and organised crime
    - Opposition members of the Senate Standing Committee on Rural and Regional Affairs and Transport (2008, p. 65) recommended in April 2008 that the Commission be tasked with reviewing any new wheat export marketing arrangements. This suggestion was subsequently incorporated into the *Wheat Export Marketing Act 2008*, with section 89 of the Act requiring that the Commission commence a review of the new arrangements by 1 January 2010
    - The House of Representatives Standing Committee on Primary Industries and Resources (2008, p. xx) recommended in June 2008 that the Commission be asked to investigate the long-term viability of the Australian honey bee industry in respect of industry organisation, marketing structures and the financial viability of producers and packers.

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- Several separate subject groups at the *Australia 2020* Summit, held on 19 and 20 April 2008, recommended that new work be undertaken by the Commission.
    - The Federalism sub-group of the Economy stream called for the Commission or a similar independent body to carry out a detailed audit, within two years, of the existing governance, management and financial arrangements applying to major areas of Commonwealth and state and territory and local government activities. These areas included education, health, infrastructure, Indigenous welfare, and regulation.
    - The Communities sub-group in the Rural stream called for a Commission audit to examine parity of access between urban and remote, rural and regional Australia to quality health, education, housing, transport and social services as well as other community services and professional resources.
  - Announcing the release of the Commission’s final report on consumer policy on 8 May 2008, the Assistant Treasurer stated:

This report provides a unique opportunity to examine Australia's approach to consumer policy and ensure that the legal and regulatory framework provides the best outcomes possible for Australian consumers. Consumer policy is a priority for the Rudd Government and the Productivity Commission has made a number of valuable recommendations to contribute to the way forward for consumer policy in Australia... I am grateful to the Commission for the effort it has put into preparing this important report. (Bowen 2008a)
  - In November 2007, the NSW Parliament’s Standing Committee on State Development reported on aspects of agriculture in that state. The report commented that any future reviews of regulation in the agricultural sector should take into account the work of the Commission (Standing Committee on State Development 2007, p. 112).
  - Various individuals and groups called for further Commission research into gambling during the year. For example, Gabriella Byrne, who leads the Free Yourself program in Victoria aimed at assisting problem gamblers, called on the government in February 2008 to fund new Commission research into problem gambling (McKenzie 2008). The then Leader of the Opposition, Brendan Nelson, also called for a Commission inquiry into the social and economic costs of gambling, arguing that technological change and other factors had meant a new Commission inquiry was needed (Shanahan 2008). The Reverend Tim Costello described the Commission’s 1999 gambling inquiry and its findings on problem gambling as a ‘landmark... that defined the problem and set out a measured approach to tackle it.’ (Costello 2007)



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- The Business Council of Australia (2007), noting its support for the role of the Productivity Commission at the Commonwealth level, proposed the establishment of a ‘federal commission’ to oversee reform across jurisdictions. It also stated that:

... given the urgent need for reform action the BCA believes the Productivity Commission could be tasked with performing the role of the federal commission for an interim period.
  - The Planning Institute of Australia, a peak body representing professional planners, recommended in April 2008 that the Commission be charged with investigating the full array of taxes and levies related to land, housing and development imposed by states and territories as a matter of urgency.
  - The Real Estate Institute of Australia, the national professional association for the real estate industry in Australia, suggested in May 2008 that the Government establish a broader housing affordability forum, comprising federal, state and local governments and industry to review the Commission’s 2004 report on *First Home Ownership* and make specific recommendations to government.
  - On 14 January 2008 the Australian Government committed to a national framework for reporting expenditure on Indigenous services, and committed to consult with agencies, including the Commission, in developing the national framework.
  - In addressing a Matter of Public Importance on industry policy within Federal Parliament on 14 February 2008, the then Shadow Treasurer, Mr Malcolm Turnbull, stated:

There is no body in Australia better qualified to look into industry matters of this kind than the Productivity Commission itself... This is the most distinguished economic think tank in Australia. It has years of expertise in looking into these industry matters.
  - On 3 July 2008, the COAG Ministerial Taskforce on Chemicals and Plastics Regulatory Reform announced a series of ‘early harvest’ reforms which provide broad endorsement of the reform blueprint proposed by the Commission. COAG also requested that actions in response to the Commission’s final report be brought forward for consideration at its October 2008 meeting.
  - A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a range of topics, including the system for issuing taxi licences in States and Territories; the costs and benefits of legal regulated availability of recreational drugs; the operation and effects of the FuelWatch scheme in Western Australia, competition in the Australian skiing industry, tax deductions for property investors; the operation of the telecommunications Universal Service Obligation; and labour shortages in agricultural industries.

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- General 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:
    - Several separate subject groups at the *Australia 2020* Summit recommended an expanded role for the Commission or the formation of other bodies modelled on it.
      - ... The public policy sub-group suggested allowing greater independence of action for the Commission and recommended developing and strengthening institutions such as the Commission that produce credible research results.
      - ... The Indigenous stream called for improved accountability, reporting and monitoring in Indigenous policy initiatives, and canvassed a number of options including the establishment of an Aboriginal and Torres Strait Islander Productivity Commission.
    - In January 2008 the Lingiari Policy Centre proposed the formation of a Commission-style body to monitor the progress of change in Indigenous communities and to apply accountability measures.

#### *Citations in reports and elsewhere*

In addition to the media coverage reported below in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of over 150 mentions of the Commission and its reports in 2007-08. These covered almost 80 different reports, papers, speeches and work in progress. Just over 5 per cent of total mentions were in relation to inquiries and commissioned studies current in 2007-08. The majority of mentions were in relation to earlier commissioned studies, including into the health workforce (2006) and the ageing of Australia’s population (2005). The annual Report on Government Services from various years also received a considerable number of mentions. The Commission’s work was cited in around 58 different journals and publications. Its work was cited mostly in the *Medical Journal of Australia*, *Australian Health* and the *Australian Economic Review*. Mentions in medical or health-related journals accounted for over 20 per cent of total mentions, while over 10 per cent of mentions were in law-related journals.

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## **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. They 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 2007-08 were:

- 113 staff years
- \$22.4 million on an accrual basis.

All government-commissioned inquiries in 2007-08 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 2007-08**

The Commission had five public inquiries and nine government-commissioned research studies underway at some time during the year. The program of government-commissioned projects is summarised in table B.3, although the varying complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2007-08 the Commission:

- completed two public inquiries begun in 2006-07 — the market for retail tenancy leases, and the consumer policy framework
- commenced and completed in the year a safeguards inquiry into the import of pigmeat into Australia, involving two reports
- commenced two other new public inquiries, which are due for completion in 2008-09, on paid maternity, paternity and parental leave, and Government drought support.

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

Month	2006-07					2007-08												2008-09							
	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>																									
Price regulation of airport services																									
Consumer policy framework																									
Market for retail tenancy leases in Australia																									
Safeguards inquiry into the import of pigmeat <sup>b</sup>																									
Paid maternity, paternity and parental leave																									
Government drought support																									
<b>Commissioned research studies:</b>																									
Review of regulatory burdens on business – Stage 1																									
Local government revenue raising capacity																									
Chemicals and plastics regulation																									
Business regulation benchmarking – Stage 2																									
Review of regulatory burdens on business – Stage 2																									
Review of mutual recognition schemes																									
Economy-wide effects of future automotive assistance																									
Economy-wide effects of future TCF assistance																									
Regulation burden on upstream petroleum																									

<sup>a</sup> Shaded area indicates the approximate duration of the project in the period covered by the table. <sup>b</sup> Includes both Accelerated and Final Pigmeat Reports.

Research studies commissioned by the Government were a significant component of the Commission’s workload in 2007-08 (figure 2.1). During the year the Commission:

- finalised two government-commissioned research studies begun the previous year — stage 1 of the review of regulatory burdens on business, and a study of local government revenue raising capacity
- commenced and completed studies on the economy-wide effects of future assistance options in the automotive and TCF industries
- commenced five other new studies — the second stages of a review of regulatory burdens on business and a benchmarking study on business regulation; a study of chemicals and plastics regulation; a review of the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA); and a study on Australia’s framework for upstream petroleum regulation.

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, 2002-03 to 2007-08**

<i>Indicators</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
<b>Public inquiries</b>					
Inquiry references received	3	4	4	2	3
Issues papers released	3	3	4	2	1
Public hearings (sitting days) <sup>a</sup>	66	26	26	28	28
Organisations/people visited	186	167	151	134	124
Submissions received	1 221	623 <sup>c</sup>	654	422	720
Draft reports <sup>b</sup>	5	5	2	3	2
Inquiry reports completed	6	4	2	4	3
Inquiries on hand (at 30 June)	2	2	4	2	2
<b>Research studies</b>					
References received	4	3	4	3	7
Submissions received	149	253	608	485 <sup>d</sup>	262
Draft reports <sup>b</sup>	1	4	4	3	4
Research reports completed	2	3	4	4	4
Studies on hand (at 30 June)	3	3	3	2	5
<b>Total references</b>					
Total references received	7	7	8	5	10
Total references completed	8	7	6	8	7
Total references on hand (at 30 June)	5	5	7	4	7

<sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> Includes all types of draft reports. <sup>c</sup> Includes 130 submissions accepted on a commercial-in-confidence basis in the smash repair and insurance inquiry. <sup>d</sup> Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the seven inquiries and government-commissioned research studies completed in 2007-08 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 2003-04 to 2007-08 are shown 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), and printing costs and the duration of the inquiry or project.

**Table B.5 Cost of public inquiries and other commissioned projects completed in 2007-08<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Consumer policy framework	3 100
Market for retail tenancy leases in Australia	1 103
Safeguards inquiry into the import of pigmeat	645
Review of regulatory burdens on business – Stage 1	1 572
Local government revenue raising capacity	1 847
Economy-wide effects of future automotive assistance	251
Economy-wide effects of future TCF assistance	250

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

**Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects<sup>a</sup>, 2003-04 to 2007-08**

<i>Expenditure item</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	416	343	382	478	394
Printing	181	125	151	132	108
Consultants	62	32	103	40	402
Other <sup>b</sup>	289	194	311	291	208
<b>Total</b>	<b>949</b>	<b>693</b>	<b>946</b>	<b>942</b>	<b>1112</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.

## 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 2007-08.

In the course of its inquiry work over the year, the Commission held 28 public hearings, visited more than 120 individuals and organisations and received more than 700 submissions. The Commission encourages broad public participation in its inquiry work, including by those in rural and regional areas. For example:

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- Following receipt of its reference on pigmeat safeguards, the Commission sent an issues paper setting out matters about which it was seeking comment and information to nearly 1000 individuals and organisations who had registered their interest or were considered likely to have an interest, including more than 400 regional media outlets. Informal meetings and visits were conducted in the early stages of the inquiry with individual producers and processors, including those in regional areas, as well as with producer organisations, Australian and State Government departments and agencies, and representatives of relevant foreign governments. To supplement publicly-available data and other information, the Commission also sent a request for information to 11 major pork abattoir/boning operations. Public hearings were held in Sydney, Canberra, Brisbane, Adelaide and Melbourne, and a modelling workshop was held to present and discuss the Commission's econometric analysis.
  - In conducting its inquiry on retail tenancy leases, the Commission consulted directly with over 50 interested parties and received a total of 211 submissions, with 140 received prior to the release of the Draft Report. The Commission undertook public hearings after the release of the Draft Report in six capital cities over a period of ten days.
  - Video and teleconferencing are also used to facilitate participation in visits and hearings. For example, in the course of its inquiries on consumer policy and retail tenancy leases, the Commission used videoconferencing and teleconferencing to engage with interested parties in the Northern Territory and Tasmania to receive advice on key inquiry issues.

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. For example:

- As part of its inquiry into paid maternity, paternity and parental leave, the Commission used a number of alternative mechanisms for consultation and receipt of submissions. In addition to a comprehensive round of initial public hearings, on 15 May 2008 the Commission held the first of a number of planned community consultations, in Dandenong, Victoria. The purpose of this forum was to provide a more informal setting in which parents, small business people and others could talk about their experiences of leave associated with the birth or adoption of children, and give their views about paid parental leave. In the lead up to this consultation, the Commission notified a wide range of parties with a possible interest in this forum, including local papers, television and radio, local councils, state-based peak bodies, local chambers of commerce, and local school and kindergarten groups. Several further community consultations are being

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planned in connection to this inquiry. The inquiry also released a personal feedback paper, which was additional to a longer issues paper, to encourage submissions of a less formal and more personal nature.

- For the second stage of its study on the performance benchmarking of Australian business regulation, the Commission: surveyed central agencies, regulators and local councils in each Australian jurisdiction to gather key data; made follow-up contact with regulators and local councils to assess the accuracy of the data gathered; contracted ACIL-Tasman to provide synthetic estimates of the time and difficulty experienced by business in complying with business registration requirements; identified over 5000 newly registered businesses across the country in the five case study sectors (that is, real estate agents, domestic builders, child care centres, cafes with footpath dining, and wineries with cellar door sales) for potential inclusion in focus group meetings with recently registered businesses; and subsequently conducted around 30 focus groups in capital cities, supplemented by ‘mini focus groups’ or one-on-one interviews in rural areas where insufficient numbers of businesses were recruited for a particular focus group.

Further details on the consultations undertaken in the course of government-commissioned research studies are provided in the reports.

Internet technology has greatly increased the accessibility of the Commission’s reports and facilitated speedier and easier notification of developments in inquiries and studies. 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 77 500 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2008.

## **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.



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The roundtables and workshops convened during the course of inquiries and government-commissioned research studies, noted above, also contributed to the Commission's quality assurance processes. Further examples of the use of such processes to increase the robustness of the analysis in reports are:

- In its study of chemicals and plastics regulation, the Commission held a series of roundtable hearings to canvas particular issues and options for reform. The roundtables were attended by 59 individuals representing 33 organisations. Following the release of its draft report, an environmental workshop was also held, attended by 20 individuals representing nine organisations, including key Commonwealth, State and Territory government agencies.
- In its Commissioned studies modelling future assistance options in the automotive and TCF industries, the Commission held technical workshops at which its modelling approach – together with some preliminary results – were reviewed by a panel of modelling experts. Participants at the automotive workshop included representatives of the Automotive Review Secretariat, the Australian Government Treasury, and the Department of Innovation, Industry, Science and Research, as well as three independent referees — Philip Adams, Director at the Centre of Policy Studies at Monash University; Chris Murphy, Director at Econtech; and David Pearce, Director and Principal Policy Analyst at the Centre for International Economics. Dr Larry Cook, Lecturer in the Department of Economics at Monash University, also provided comments. Three referees attended the TCF workshop — Philip Adams, David Pearce and John Zeitsch (Concept Economics). Other participants at the workshop included representatives of the TCF Review and Secretariat, the Australian Government Treasury, and the Department of Innovation, Industry, Science and Research.

The Government's formal responses to the work it has commissioned potentially provide a further 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**

Of the seven inquiries and commissioned research studies finalised in 2007-08, five were completed on or ahead of schedule. The original reporting period for the inquiry on retail tenancy leases was extended by approximately three months from the original date of 21 December 2007 to 31 March 2008, due largely to the extensive consultation involved and the timing of several key submissions. The inquiry report on Australia's consumer policy framework was extended by a total of four and a half months to 30 April 2008, also due largely to the extensive consultation

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involved and the timing of several key submissions. In both cases the extended reporting dates were met.

## **Indicators of usefulness**

The usefulness of government-commissioned projects undertaken by the Commission in contributing to policy making and public understanding is demonstrated by a range of indicators.

### *Government responses*

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 accepted or expressed in-principle agreement to all of the Commission's recommendations in the Safeguards Inquiry into the Import of Pigmeat. The Government response noted that safeguard action was found not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry and on 8 April 2008 notified the WTO that it would not impose safeguard measures. The response also acknowledged the Commission's view that existing government-funded programs should be properly evaluated before any further assistance to the pig industry is contemplated.

In its response to the Commission's report on retail tenancy leases, the Commonwealth agreed (or agreed in-principle) to all but one of the Commission's recommendations. This included recommendations on the use of simple (plain English) language in all tenancy documentation; contact points for information on lease negotiation, lease registration and dispute resolution; harmonisation of retail tenancy legislation across jurisdictions; and the possible introduction of a code of conduct for the retail tenancy market as an alternative to prescriptive legislation. The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies.

### *COAG and Ministerial Council responses*

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

- COAG have agreed to the establishment of a new national consumer policy objective and national consumer law in line with recommendations made by the

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Commission in its *Review of Australia's Consumer Policy Framework*. (COAG 2008c)

- At its meeting of October 2 2008, COAG welcomed the Commission's final report on *Chemicals and Plastics Regulation* and announced its intention to implement a series of reforms which provide broad endorsement of the reform blueprint proposed by the Commission
- In its communiqué of 26 March 2008, COAG also announced significant reforms in relation to the health workforce that implement recommendations made by the Commission in its 2006 report *Australia's Health Workforce*. In particular, it agreed to the establishment of a single national scheme for the registration and accreditation of health professionals by 1 July 2010.

Governments do not always accept the Commission's advice, at least initially. Nevertheless, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments typically adopted a substantial majority of recommendations and generally endorsed its findings (details are provided in appendix B and table B.7). Further, an assessment of the nature and extent of references made to material in the 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 (appendix B).

#### *Further evidence of usefulness*

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

- On 17 April 2008, a communiqué from the Environment Protection and Heritage Council stated that:

Ministers noted issues raised in the 2006 Productivity Commission Report on Historic Heritage, including the financial impacts of heritage listing for some private land owners. They acknowledged the importance of addressing these issues in their ongoing work on Australia's historic heritage. (EPHC 2008)

- New arrangements for the accreditation of diagnostic imaging practices, introduced by the Australian Government in 2008, drew on findings in the Commission's 2006 report on *Standard Setting and Laboratory Accreditation*. The Explanatory Statement said:

The preferred two stage approach is also in line with the views expressed by the Productivity Commission in its 2006 report... Although that review focused on activities of bodies such as Standards Australia and the National Association of Testing

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Authorities, the PC's concern about excessive requirements for accreditation have general application. (Minister for Health and Ageing 2008, p. 26)

- In a speech outlining the new Labor Government's deregulation agenda, delivered on 26 February 2008, the Minister for Finance and Deregulation, the Hon. Lindsay Tanner MP, cited a number of Commission reports. In discussing the need for further regulatory reform, he drew on estimates of the total regulatory compliance cost burden for business in the Commission's 2007 study of the National Reform Agenda (Tanner 2008).
- A Victorian Competition and Efficiency Commission inquiry into food regulation (VCEC 2007) made use of 11 Commission reports, including a 1998 report on *Work Arrangements in the Meat Industry* and the 2006 *Review of the Australian consumer product safety system*.
- The Commonwealth Government's announcement of the National Gas Law on 1 July 2008 stated that it implemented recommendations made in the Commission's 2004 inquiry *Review of the Gas Access Regime* (Ferguson 2008).
- On 18 July 2008 the Australian Government announced its intention to introduce legislative amendments to the *Disability Discrimination Act* in the Spring sittings of Parliament to implement recommendations made by the Productivity Commission in its 2004 review of the Act. The Government stated that the key amendments will clarify the obligation of employers, service providers and others to remove discriminatory barriers for people with disabilities. It also stated that:

The amendments to the Act that have been recommended by the Productivity Commission will enhance the operation of Australia's federal anti-discrimination system. (McClelland and Shorten 2008)

- A report for the Queensland Government on waste strategy, prepared by the Qld Environmental Protection Agency, drew heavily on the Commission's 2006 *Waste Management* report (Environmental Protection Agency (Queensland) 2007).
- The Economics and Industry Standing Committee of the WA Legislative Assembly drew extensively on several Commission reports, including Science and Innovation, when considering the State Government's role in developing and promoting ICT in that state.
- The Commission's 2007 report on *Road and Rail Infrastructure Pricing* was used extensively by the National Transport Commission (NTC) when developing options for reform of road user charges. The *National Transport Commission (Model Heavy Vehicle Charges Act) Regulations 2008* establishes uniform State and Territory annual registration charges and permit fees that are

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to apply to various heavy road transport vehicles, and commences from 1 July 2008. The Explanatory Statement to the Act states:

In developing... options (for heavy vehicle charges), the NTC was informed by the Third Determination consultation process, the PC Inquiry, discussions and a technical workshop with industry representatives and government, and analyses of potential impacts of changes in the level of charges.

On 29 February 2008, Minister Albanese used findings from the Commission's report when announcing new road user charges (Albanese 2008).

- The Australian Energy Market Commission (2007) drew on findings in a number of past Commission reports, including the 2001 *Review of the Prices Surveillance Act 1983*, as part of a major review of the effectiveness of competition in electricity and gas retail markets in Victoria.
- An explicit request was made within the Australian Government's Terms of Reference for its National Innovation System Review (22 January 2008) that it have regard to the Commission's inquiry report on *Public Support for Science and Innovation*. The review's report, released in September 2008, made extensive use of that inquiry report.
- In South Australia, a Planning and Development Review was initiated by the Minister for Planning and Development in June 2007. The Review was conducted by a steering committee and considered the state planning system and possible reforms. The report by the Review Steering Committee drew heavily on the Commission's 2007 report on *Performance Benchmarking of Australian Business Regulation*.
- In June 2008, the Australian Government released a Discussion Paper as part of its Review of Australian Higher Education which made extensive use of two Commission reports: *University Resourcing* and *Public Support for Science and Innovation*.

**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 Pigrate 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.

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|----|---|--|
| 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. The report remains a major reference point in community discussion of gambling issues in Australia.               |
| 11 | Broadcasting (March 2000)   | The Government did 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. The Government made some references to the report when introducing its Broadcasting Services Amendment (Media Ownership) Bill 2006.                 |
| 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 Trade Practices Act 1974: 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)	<i>The Government initially 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. Subsequently, the Government has expanded access to self-insurance arrangements for firms and enacted other legislative changes consistent with the Commission's recommendations.</i>
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)	The Ministerial Council on Energy supported the Commission's key recommendations.

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Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
32 Review of Part X of the <i>Trade Practices Act 1974</i> : International Liner Cargo Shipping (February 2005)	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.
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. COAG drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's National Reform Agenda reflect the Commission's recommendations and approach.
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. A Motor Vehicle Insurance and Repair Industry Code of Conduct commenced on 1 September 2006.
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 The Private Cost Effectiveness of Improving Energy Efficiency (August 2005)	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.
37 Conservation of Australia's Historic Heritage Places (April 2006)	While the Government agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. The Government also rejected recommendations that all levels of government recognise and separately fund the heritage responsibilities of non-heritage agencies as community service obligations and for transparency in reporting heritage-related expenditures and costs.
38 Waste Management (October 2006)	The Government endorsed the overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making but rejected the Commission's broad policy framework recommendations. The Commonwealth endorsed a range of other recommendations including those on the assessment of plastic bag regulation; the 2008 review of the National Packaging Covenant; avoidance of mandatory standards for recycled content in products; the supply of factually accurate, relevant and publicly accessible information on the risks, costs and benefits of waste management issues; and leaving the provision of waste-exchange services to private markets.

- 39 Tasmanian Freight Subsidy Arrangements (December 2006) In response to the Commission's draft report proposals that the subsidy schemes be phased out or abolished, the Government announced that both the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme would continue. The Commission's final report focused on reforms which would improve the efficiency and effectiveness of the schemes and the Government agreed with the Commission's substantive recommendations.
- 40 Review of Price Regulation of Airport Services (December 2006) The Government announced that it supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services.
- 41 Road and Rail Freight Infrastructure Pricing (December 2006) COAG announced in April 2007 that it broadly endorsed the reform blueprint proposed by the Commission. Further, it accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode.
- 42 *Safeguards Inquiry into the Import of Pigeat (Accelerated Report) (December 2007)* On 20 December 2007 the Minister for Agriculture, Forestry and Fisheries announced the Commission had found that provisional safeguard measures on pigmeat imports were not warranted and that, consistent with Australia's international obligations, the WTO would be notified accordingly.
- 43 *The Market for Retail Tenancy Leases in Australia* A government response was tabled in Parliament on 27 August 2008. The Government agreed or agreed in-principle to the Commission's recommendations on the use of simple (plain English) language in all tenancy documentation; contact points for information on lease negotiation, lease registration and dispute resolution; harmonisation of retail tenancy legislation across jurisdictions; and the possible introduction of a code of conduct for the retail tenancy market as an alternative to prescriptive legislation. The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies.
- 44 *Safeguards Inquiry into the Import of Pigeat (March 2008)* A government response was tabled in Parliament on 4 June 2008. The response provided agreement or in-principle agreement to all of the Commission's recommendations. The response noted that the Commission's accelerated report found that provisional safeguard action could not be taken against pigmeat imports at that time. It further noted that the Commission's final report also found that safeguard action was not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. Accordingly, on 8 April 2008, the Government notified the WTO that the safeguards investigation had been terminated, and that it would not impose safeguard measures.

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Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
45 <i>Review of Australia's Consumer Policy Framework (May 2008)</i>	<i>In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the Trade Practices Act 1974 and drawing on the recommendations of the Commission and best practice in State and Territory consumer laws. In addition, COAG is also reviewing occupational regulations only applying in one or two jurisdictions, which the Commission indicated warranted early attention. In accordance with a further Commission recommendation, on 22 July 2008 the Assistant Treasurer also announced changes to the configuration of the Commonwealth Consumer Affairs Advisory Council (CCAAC).</i>

<sup>a</sup> Additions or significant changes to the table published in the 2006-07 Annual Report are indicated in italics.

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- Reference during parliamentary proceedings to Commission inquiry reports and 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 124 separate occasions by Members and Senators in the Federal Parliament in 2007-08. Commission inquiries and reports which featured most prominently in mentions were those on Indigenous disadvantage, first home ownership, science and innovation, road and rail infrastructure pricing and automotive assistance
    - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 185 occasions in 2007-08. Around 45 per cent of mentions were to the *Report on Government Services*, with the Commission's reports on the gas access regime, gambling, road and rail infrastructure pricing, consumer policy and the National Reform Agenda also featuring prominently.
  - Other examples of the use of Commission inquiry and research studies include:
    - continuing use of the Commission's 2004 inquiry into *First Home Ownership*, including by the Reserve Bank of Australia (Richards 2008); by the Senate Select Committee on Housing Affordability in Australia (2008); and by academics (Spies-Butcher and Stebbing 2008)
    - use of findings in the Commission's 2007 research report on *Public Support for Science and Innovation* by the IMF (Tressel 2008); by the former Department of Education, Science and Training (Owen, Kos and McKenzie 2008); by authors from Commonwealth Treasury (Regan and Tunny 2008); and by the Australian Government in a Discussion Paper released as part of its Review of Australian Higher Education (Australian Government 2008b)
    - ongoing use of the Commission's 2005 report on *Australia's Health Workforce*, for example by the Department of Health and Ageing (DHA 2008); by the Parliamentary Library in several research papers and a bills digest (table B.2); and by academics (Russell 2007)
    - continuing and widely based use of the Commission's 2005 report, *Economic Implications of an Ageing Australia*, for example by Commonwealth Treasury (Gruen and Thompson 2007); by the Department of Ageing, Disability and Home Care (NSW) in a paper on planning for population change to 2030 (DADHC 2008); and in a paper for the Menzies Research Centre on the future of Commonwealth State relations (Ergas 2007)
    - use within IMF research (Tressel 2008) of a number of Commission reports and speeches in considering the impact of product and labour market policies on technological diffusion and multi-factor productivity. This research

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described the Commission's 2007 report on science and innovation as 'a thorough analysis of Australia's public support of science and innovation.'

- use of Commission reports by private sector consultants in their work for government and industry clients — for example, the Commission's 2004 *Review of the Disability Discrimination Act 1992* (Allen Consulting Group 2008); the Commission's 2001 *Review of the Prices Surveillance Act 1983* (ACIL Tasman 2007); the 2005 study of *Consumer Product Safety* (Access Economics 2007); the 2006 inquiry on *Road and Rail Infrastructure Pricing* (John Hearsch Consulting Pty Ltd 2008); and the 1998 study on *International Benchmarking of the Australian Waterfront* (Price Waterhouse Coopers 2007).

### *Website and media coverage*

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 2008 there were more than 125 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2007-08. The projects of most interest were the inquiries on paid parental leave (35 600 requests), consumer policy (15 150 requests) and retail tenancy leases (12 480 requests). Other heavily accessed web pages were for the 2007 and 2008 Reports on Government Services (12 400 and 24 600 requests, respectively) and the 2005 and 2007 *Overcoming Indigenous Disadvantage* reports (19 300 requests in total). Speeches given by the Commission's Chairman attracted more than 23 500 website requests. Even after an inquiry or project is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 1999 inquiry on Australia's gambling industries, the 2005 study of the economic implications of an ageing Australia and the 2005 study of the health workforce were each requested over 10 000 times.
- Inquiry and commissioned research reports typically receive wide media coverage. In 2007-08 there were 27 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on pigmeat safeguards, waste management, migration and population, gambling and national competition policy reforms, and the studies on automotive assistance options, consumer product safety and science and innovation.
- Inquiries current in 2007-08 received over 1 950 mentions in the print and broadcast media during the year — over 40 per cent of total print and broadcast media coverage. Coverage of the Commission's inquiry into parental leave

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(commenced in February 2008) accounted for over 28 per cent of total mentions. Commissioned studies current in 2007-08 attracted just over 8 per cent of total media coverage. The majority of this coverage was accounted for by mentions of the study into future modelling of automotive assistance. New work suggestions accounted for over 7 per cent of total mentions.

### *Invited presentations*

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 25 invitations the Commission accepted in 2007-08 to present papers on inquiries and commissioned studies to business, community and other groups – in particular, on the Commission's consumer policy and heritage inquiries, and the study on Australia's health workforce (table E.1).

## **Output 2: Performance reporting and other services to government bodies**

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

- provides secretariat, research and report preparation services to the Steering Committee for the Review of 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
- 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.

The Commission is committed to producing reports of a high standard which are useful to government and the wider community, and completed on time.

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The resources used in producing this output in 2007-08 were:

- 22 staff years
- \$3.8 million on an accrual basis.

### **Activities in 2007-08**

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

- Financial Performance of Government Trading Enterprises, 2004-05 to 2005-06 (July 2007)
- Feedback on the Report on Government Services 2007 (September 2007)
- Report on Government Services 2008, 2 volumes (and on CD with supporting tables, January 2008)
- Report on Government Services 2008: Indigenous Compendium (April 2008)
- Financial Performance of Government Trading Enterprises, 2004-05 to 2006-07 (July 2008).

### *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, COAG requested in 2002 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*

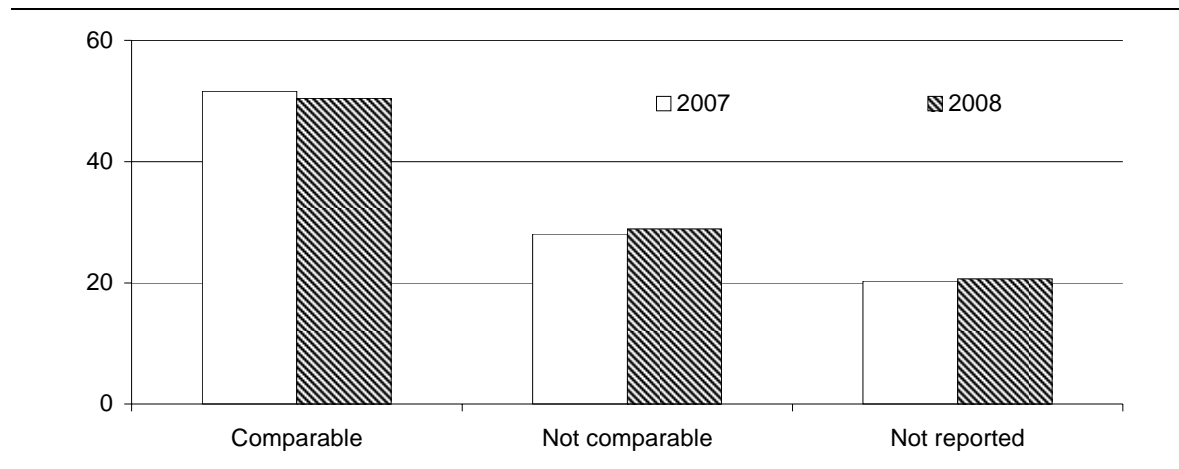
The thirteenth Report on Government Services was released in January 2008. Reporting is an iterative process and, since the Review published its first Report in 1995, there have been significant advances both in the scope of reporting and in the quality and comprehensiveness of data presented. The Report emphasises reporting of outcomes, consistent with the 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 information published in the Report. Report content decreased between the 2007 and 2008 Report, with 50 per cent of indicators fully comparable in 2008 (compared to 52 per cent in 2007). The proportion of indicators reported on, but not fully comparable, increased from 28 to 29 per cent. The proportion of indicators with no reporting against them increased slightly to 21 per cent (figure B.2).

**Figure B.2 Comparability of indicators**

Per cent



Particular improvements in the 2008 Report included:

- reporting of Indigenous learning outcomes by geolocation for the first time and the inclusion of nationally comparable learning outcomes in the school education chapter
- introduction of Indigenous health workforce data in the health preface
- a new indicator for public hospitals on ‘hospital procedures’ and improved reporting on the age profile of the nursing and medical practitioner workforces
- data being reported on for a new indicator of equity of access, ‘early detection and early treatment for Indigenous people’ and inclusion of data for both Australian general practice accrediting bodies in the primary and community health chapter
- improvements to time series data on five-year relative breast cancer survival rates, BreastScreen Australia geographic location participation rates and data on public health expenditure on breast cancer screening in the health management issues chapter
- reporting, for the first time, age-specific approval rates, ‘long-term aged care in public hospitals’ and expenditure data in relation to Multi-Purpose Services, Transition Care Program and Indigenous specific services for aged care services

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- improvements to jurisdictional data on people with a disability aged 0–49 years in residential aged care and a new section on informal carers in the services for people with a disability chapter
  - reporting on juvenile justice services, which has moved from the community services preface to the protection and support chapter, together with improved reporting on experimental results for the ‘pathways’ project
  - reporting of descriptive data for the Indigenous community housing and development of the Indigenous community housing performance indicator framework in the housing chapter.

Table B.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2008 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 for the school education, health preface, public hospitals, primary and community health, health management issues, aged care services and housing chapters in the 2008 Report. The Indigenous Compendium to the Report, released in April 2008, provides an easily accessible collation of all Indigenous data from the Report, and complements the information in the separate *Overcoming Indigenous Disadvantage* reports.

#### *Overcoming Indigenous Disadvantage: Key Indicators*

In 2002, COAG commissioned the Review to produce a regular report on key indicators of Indigenous disadvantage, ‘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 is built on a strategic framework that has been endorsed by the Australian, State and Territory governments. Extensive consultations were held in 2006, seeking feedback on the 2005 Report and suggestions for improvements to the framework and indicators. At the end of the formal consultation period, a report on consultations was released.

The third edition of *Overcoming Indigenous Disadvantage* was published in June 2007. It found improvements in some key economic indicators, including employment, household income and home ownership. There were also improvements in several child health indicators.

**Table B.8 Indicators reported on a comparable basis, 2008 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.
<b>Early childhood, education and training</b>				
Children's services	18	12	63	1
School education	15	10	67	–
VET	14	11	79	–
<b>Justice</b>				
Police services	23	18	78	–
Court administration	6	3	50	–
Corrective services	11	10	91	–
<b>Emergency management</b>				
Fire events	10	2	20	–
Ambulance events	5	–	–	–
Road rescue events	–	–	–	–
<b>Health</b>				
Public hospitals	15	6	40	–
Maternity services	10	3	30	–
Primary and community health <sup>a</sup>	21	21	100	-2
Breast cancer	11	7	64	–
Mental health	8	4	50	–
<b>Community services</b>				
Aged care services	14	12	86	–
Services for people with a disability	13	7	54	–
Child protection and out-of-home care	15	4	27	–
SAAP	16	12	75	–
<b>Housing</b>				
Public housing	11	11	100	–
State owned and managed Indigenous housing	11	11	100	–
Community housing	10	2	20	2
Indigenous community housing	7	4	57	–
Commonwealth Rent Assistance	10	9	90	–

SAAP = Supported Accommodation Assistance Program. – Nil or rounded to zero. <sup>a</sup> Updated data were not available for two indicators that were included in the 2007 Report and this has resulted in a decrease in comparable indicators.

Other outcomes did not improve in the period covered by the report. Rates of substantiated notifications for child abuse or neglect increased for both Indigenous and non-Indigenous children. There was an increase in the number of long-term health conditions for which Indigenous people reported significantly higher rates than non-Indigenous people, and there was no change in the rate of housing

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overcrowding. The report also found that Indigenous people's involvement with the criminal justice system continued to deteriorate.

The estimated cost to the Commission of assisting governments in the production of the *Report on Government Services, Overcoming Indigenous Disadvantage* and related Review activities in 2007-08 was \$3.5 million.

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

The Commission released its study on the financial performance of GTEs for the period 2004-05 to 2005-06 in July 2007.

The subsequent report on a range of financial indicators for 86 enterprises, covering the period 2004-05 to 2006-07, was substantially completed in 2007-08 and published in July 2008. The outputs of the research program on the capital management of GTEs were also included in this report.

#### *International benchmarking*

The Commission did not publish any benchmarking research on infrastructure in 2007-08.

### **Quality indicators**

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

The Commission's work for the Review of Government Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 13 national working groups comprising representatives from 80 government agencies — totalling around 220 people who provide specialist knowledge — 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. During 2007-08, following the release of the 2007 report, a team visited government agencies, Indigenous communities and Indigenous organisations across the country, in a range of remote and regional centres, as well

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as in major cities. The team presented key results from the report and sought feedback from users. Further targeted consultations with governments, researchers and Indigenous organisations are planned in 2008-09 as part of preparation of the next edition of the 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.

## **Timeliness**

The 2007 GTE financial performance monitoring report, the 2008 Report on Government Services and its Indigenous Compendium, and Feedback on the Report on Government Services 2007 were completed on time.

## **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:

- A variety of performance information sourced to the 2008 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2007-08.
  - In the Federal Parliament, data from the reports were used in relation to mental health, public housing and corrective services.
  - In other parliaments, data from the reports were mentioned 85 times and were used in relation to police services, disability services, protection and support services, education, court administration, health, public housing, emergency management and corrective services.
- A number of journal articles and publications across a wide range of disciplines used the 2008 Report (and earlier reports) as a source. It was cited in articles in the Australian Journal of Social Issues, Drug and Alcohol Review, Parity, Medical Journal of Australia, Australian Journal of Early Childhood, Australian Journal of Public Administration, Australian Law Journal, Medical Observer Weekly, Australasian Journal of Ageing and AIAL Forum.

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Other indicators of usefulness from 2007-08 were:

- high levels of demand for the report. More than 1460 bound copies of the report were distributed by the Commission and there were more than 34 800 HTML page requests for the Government Service Provision index page on the Commission's website in 2007-08. There were more than 24 600 HTML page requests for the 2008 Report on Government Services during 2007-08. The 2007 Report continued to be accessed from the website — with over 11 800 page requests during 2007-08
- extensive media coverage of the 2008 Report on Government Services. There were 220 press articles drawing on the report and more than 400 mentions of it in electronic media in the period to 30 June 2008
- support for the recent inclusion of a section on children's services in education within the report by Childcare Associations Australia (CAA), who stated:

The Productivity Commission report provides useful trend information to the government and peak bodies such as CAA to consider the development of future policies for children's services. CAA is particularly pleased that future reporting frameworks will move beyond measurements of outputs (such as enrolment and participation rates) to examine broader quality indicators in children's service provision. (CAA 2008)

- use of measures of productivity in policing, which were cited as a basis for measuring productivity outcomes during crucial pay negotiations between the Victoria Police and the Police Association
- continued use of data by States and Territories to provide indicators of progress and as a guide for areas of improvement. For example, ACT Chief Minister Jon Stanhope stated on 31 January 2008 that:

The report indicates that services delivered by the ACT Government continue to compare very favourably with those delivered in other jurisdictions. The report also highlights those areas where the ACT Government can do better and is a valuable tool in helping us to better serve the people of the ACT into the future. (Stanhope 2008)

- widespread use of data by researchers: for example, data on out-of-pocket child care expenses were cited in Buckingham (2008, p. 9); data on prison assaults were used in AIHW (2007a); data on the number of vegetation fires attended to annually by fire services were used in an Australian Institute of Criminology report on trends in deliberate vegetation fires in Australia, (Bryant 2008); data on spending on education, health, fire services and court costs were used by the Australian Institute of Criminology (Rollings 2008); and data on literacy and numeracy performance in Australian schools were cited by Leigh and Ryan (2008).

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### *Overcoming Indigenous Disadvantage: Key Indicators*

The principal 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 strongly supportive feedback from governments and Indigenous people and organisations since the release of the 2007 report. There have been many requests for briefings from Ministers, senior government officials and departments and agencies at Commonwealth, State and Territory levels.

More specific evidence of the usefulness of the *Overcoming Indigenous Disadvantage* reports during 2007-08 includes:

- 17 mentions of the report in the Federal and State parliaments
- extensive references to the 2007 report (and to a lesser extent the 2003 and 2005 reports) in the Social Justice Report 2007, issued by the Aboriginal and Torres Strait Islander Social Justice Commissioner and tabled in Parliament in June 2008 (Calma 2008)
- citations in articles in such journals as the Medical Journal of Australia and Australian Economic Review
- distribution by the Commission of more than 3600 bound copies of the 2007 report and 4500 copies of the 2007 overview
- more than 15 300 HTML page requests of the full 2007 report and 6700 HTML page requests for the overview, in 2007-08. The 2005 report continued to be accessed during 2006-07 with more than 4000 requests
- ongoing media coverage, with 13 press articles and 10 electronic media articles in 2007-08.

### *Performance monitoring of government trading enterprises*

Evidence of the usefulness of the Commission's reporting on government trading enterprises is manifest in the following:

- State and Territory governments agreed to ongoing involvement in performance monitoring, furnishing financial data as well as checking factual data and commentary
- In commenting on the 2007 GTE report, the then 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

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Territory Governments and operate in the electricity, water, transport and forestry sectors ...

The Commission quite rightly emphasises the importance of GTEs operating efficiently, given their role as significant providers of infrastructure services that are fundamental to the wellbeing of Australians.

Timely and effective implementation of COAG's National Reform Agenda commitments, agreed between the Australian and State and Territory Governments in April of this year, will go a long way towards realising the gains from improving productivity, competitiveness and efficiency in crucial infrastructure sectors. (Costello 2007)

- The reports on the financial performance of GTEs attracted media attention through the year, including two editorials; articles in the *Australian Financial Review* by senior journalists on the results of the 2007 report; and an article by a senior journalist on community service obligations that drew on the research contained in the 2008 report
- There were over 3000 external requests for the website page of the 2007 report on GTE performance.

### **Output 3: 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
- 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 Assistant 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 2007-08 were:

- 1 staff year
- \$0.2 million on an accrual basis.



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## Activities in 2007-08

### *Complaints activity*

The AGCNCO received two formal complaints during 2007-08 and completed one investigation report from a complaint received during 2006-07 (table B.9). Details of the investigation report and complaints received, including the action taken, are reported in appendix D.

**Table B.9 Formal competitive neutrality complaints, 2003-04 to 2007-08**

<i>Activity</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Written complaints received	9	4	4	1	1
Action:					
New complaints formally investigated	1	–	–	1	–
Complaints investigated but not proceeding to full report <sup>a</sup>	1	–	4 <sup>b</sup>	–	1
Complaints not investigated	6	3	1	–	1
Reports completed	1	1	–	–	1
Complaints on hand (30 June)	1	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 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 2007-08 the AGCNCO provided advice around twice a week, on average, to government agencies or in response to 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. Over the past year, in response to requests, the Office provided advice to a number of agencies implementing competitive neutrality as part of market-testing exercises.

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 Deregulation — 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.

Formal investigations can involve provision of significant amounts of data to the Office by both the complainant and the government business subject to complaint and, in some instances, extended periods of consultation. In these situations the Office does not consider it is conducive to good outcomes to enforce a 90-day time limit on formally reporting on complaints. The Defence Housing Australia investigation and report fell into this category.

## Indicators of usefulness

The AGCNCO circulates its reports and research to State and Territory government agencies responsible for competitive neutrality policy and complaint investigations to facilitate the exchange of information and to 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.

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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.

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. For example, the guidance note on the cost of capital for competitive neutrality purposes issued by the Victorian Competition and Efficiency Commission (VCEC 2007b) drew on the rate of return paper.

During 2007-08 there were more than 5000 external requests to the website for AGCNCO investigation reports and about 1300 external requests for AGCNCO research publications.

#### **Output 4: 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. The expectations for its supporting research program are that it provides high quality, policy-relevant information, analysis and advice to governments and the community, of a nature and of a quality not being produced elsewhere. The research program aims to complement the Commission's other activities. The Commission also organises research conferences and workshops in order to advance the debate on policy issues, to encourage cutting-edge contributions, and to facilitate research networks.

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 2007-08 were:

- 33 staff years
- \$6.1 million on an accrual basis.

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## Activities in 2007-08

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

- research to meet the Commission's annual reporting obligations, comprising
  - its annual report for 2006-07, tabled in Parliament on 21 February 2008, which focused on issues and challenges facing Australia in enhancing labour force participation
  - a companion publication on trade and assistance issues, released in March 2008
- a Commission Research Paper on possible reform directions in the management and use of urban water
- a submission to the Garnaut Review on climate change policy
- a published version of the Chairman's speech, *Riding the third wave: Some challenges in national reform*, to the 2008 Melbourne Institute/The Australian Social and Economic Outlook Conference, as well as three other presentations by the Chairman posted on the Commission's website
- the Richard Snape Lecture, *Economic and Regulatory Reforms in Europe: Past Experiences and Future Challenges*, delivered by Patrick Messerlin (Professor of Economics at the Institute d'Etudes Politiques de Paris, Director of the Groupe d'Economie Mondiale) on 30 October 2007
- the Commission's contribution to the China Australia Governance Program, the aim of which is to address governance issues which have an impact on the effectiveness of poverty alleviation in China. Commissioner Mike Woods is the Chair of the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in 2007-08
- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
- six Staff Working Papers on a variety of research topics including the labour market and the environment
- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The research publications produced in the supporting research program in 2007-08 are listed in box B.3. Research projects underway at 30 June 2008 are shown in box B.4.

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Box B.3 **Supporting research and annual reporting publications,  
2007-08**

***Annual report suite of publications***

Annual Report 2006-07

Trade & Assistance Review 2006-07

***Commission research papers***

Towards Urban Water Reform: A Discussion Paper

***Submission***

Productivity Commission to the Garnaut Climate Change Review

***Chairman's published speech***

Riding the Third Wave: Some challenges in national reform

***Conference/workshop proceedings***

*Behavioural Economics and Public Policy*

*Productivity Perspectives 2007*

***Staff working papers***

Part Time Employment: The Australian Experience

Armington General Equilibrium Model: Properties, Implications and Alternatives

Migration, Trade and Investment

Distributional Effects of Changes in Australian Infrastructure Industries during the 1990s

The Stern Review: an assessment of its methodology

Precaution and the Precautionary Principle: Two Australian Case Studies

***Consultants' reports***

Comparison of Generic Consumer Protection Legislation

***2007 Richard Snape Lecture***

Economic and Regulatory Reforms in Europe: Past Experiences and Future Challenges (Patrick Messerlin)

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**Box B.4 Supporting research projects underway at 30 June 2008**

Infrastructure and productivity: A review of theory and evidence	Links between literacy and numeracy skills and labour market outcomes
Financial Performance of Government Trading Enterprises 2004-05 to 2006-07	Theory and evidence on skill shortages in Australia
Investments in intangible assets and Australia's productivity growth	Effects of health and education on wages
Setting priorities for services trade reform (ARC Linkage Grant) *	Historical validation using the Monash Multi Regional Forecasting (MMRF) model
Public economic infrastructure financing - an international perspective	Developing an Armington-Heckscher-Ohlin database
Recent declines in productivity growth in the mining sector: causes and consequences	Using the Labour Input Loss Index to inform policy choices
The distribution of recent economic gains	Measuring productivity in health service delivery
Modelling urban water demand and trade	Splitting global trade data into homogenous and differentiated products
Water use in Australian agriculture and farm performance	A user interface for updating and running the Commission's demographic models
Lifecycle working choices of women	Choosing the discount rate in cost benefit analysis
Trends in the demand and supply of aged care services - some implications	Recent developments in Australian population fertility
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).

### *Richard Snape Lectures*

The presentation by Patrick Messerlin was the fifth in a series of lectures in memory of Professor Richard Snape, the former Deputy Chairman of the Commission, 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 audience. Previous lectures have been delivered by Professor Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006), Martin Wolf (associate editor and chief economics commentator at the

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*Financial Times*) and Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles).

The next lecture will be given by Professor Vittorio Corbo, the former Governor of the Central Bank of Chile.

### *Supporting research proposals*

Supporting research proposals throughout the year were considered against the Commission's intention that the program continue to emphasise the sustainability of productivity improvements — including environmental and social aspects — and encompass work on:

- productivity and its determinants (including the scope for 'catch-up'; infrastructure; assistance to industry; barriers to trade, both domestic and international; and the performance and governance of government trading enterprises)
- environmental and resource management, especially of water and its infrastructure (urban as well as rural)
- labour markets (including health and education, and distributional and other social dimensions)
- the development of economic models and frameworks (including behavioural economics) to aid the analysis of policies and trends, and of impediments to sustained improvements in living standards (PC 2006a).

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 80 presentations given by the Chairman, Commissioners and staff in 2007-08 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 quality assurance process for its discussion paper on urban water reform involved:

- a workshop, held in December 2007, at which work-in-progress was discussed with academic experts in the water sector, representatives from the National

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Water Commission and the Water Services Association of Australia and representatives from a number of key utilities and regulators

- separate consultations with sectoral experts and peak bodies use of internal and external referees who provided valuable feedback on improving the quality of the paper.

Research projects can involve consultations with key interested parties on the issues they view as important and obtaining access to information. For example, the staff working paper analysing the Australian experience with part time employment benefited substantially from comments and feedback on various factual aspects from agencies such as the Commonwealth Treasury and the Department of Education, Employment and Workplace Relations.

Research is monitored internally as it progresses and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences. For example, a version of the staff working paper on *Migration, Trade and Investment* was presented at seminars held at the Productivity Commission and also as part of the 12th Dynamics, Economic Growth and International Trade Conference held at the University of Melbourne in June 2007. A further example is recent work on assessing productivity in Australian health services, which was presented at a number of forums in 2007-08, including an ARC Linkage Project Workshop, the ARC Linkage Project Conference on Setting Priorities for Service Trade Reform, and the ABS-Productivity Commission Productivity Perspectives Conference. The researchers also took part in a workshop with the ABS, the Australian Institute of Health and Welfare and the Department of Health and Ageing on improving the quality of health data for use in the National Accounts and for productivity measurement.

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. Referees for staff working papers in 2007-08 were drawn from the University of Melbourne; the Office of the Gene Technology Regulator; the Australian Fisheries Management Authority; Monash University; the Reserve Bank of Australia; Tufts University (US) and the University of Nottingham (UK).

Further evidence of the quality and standing of the Commission's supporting research program is found in the following:

- the request in January 2008 by Professor Ross Garnaut that the Commission make a submission to the Garnaut Climate Change Review. In making this request he stated that:

I consider a general PC submission to the Garnaut Climate Change Review would be valuable... As the Commonwealth's pre-eminent economic research organisation, the



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PC is well placed to provide analysis to the Review on the economics of addressing climate change in Australia.

- the Committee for Economic Development of Australia decision to disseminate the findings from Commission supporting research reports on international comparisons of workforce participation rates, Australia's productivity potential and public support for science and innovation in its magazine, *Australian Chief Executive*, in July, October and December 2007 respectively
- the awarding of the Alan A Powell Award to the Commission's Patrick Jomini for outstanding service to GTAP (Global Trade Analysis Project). The award was presented at the GTAP Advisory Board meeting in June 2008 and recognised contributions to the GTAP Network and computable general equilibrium modelling, including contributing to the development of the Salter model of world trade – the predecessor of GTAP – and later, the FTAP model, which is designed to analyse the liberalization of trade in services
- notification by the OECD that a paper by Assistant Commissioner Dean Parham on *Empirical analysis of the effects of R&D on productivity* would be published by it in a selection of papers presented and discussed during workshops and analysis held in Madrid in 2005 and Bern in 2006.

## Timeliness

The Commission's annual report for 2006-07, which included a theme chapter on issues and challenges in enhancing labour force participation, was completed on schedule and tabled in Parliament on 21 February 2008. The annual report companion volume (*Trade & Assistance Review 2006-07*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

A number of supporting research projects in 2007-08 were placed on hold as resources were diverted to servicing projects commissioned by government. For example, the supporting research project on the theory and evidence of skills shortages in Australia was placed on hold pending completion of the 2008 Review of Mutual Recognition Agreements. The priority accorded commissioned projects means that a lower-priority supporting research project can often take longer than initially anticipated, even though delivered within the original budget. Research projects which are not very time sensitive can be resourced intermittently. Redefinition of project scope and delays in obtaining data and referee comments can also be reasons for delays in completion times. The more experimental or exploratory the project, the more difficult it is to schedule completion.

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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. Examples from 2007-08 include the following:

- Recent outputs from the Commission's stream of productivity research were widely used in 2007-08. For example, several Commission papers in this area were used within a section of the Australian Government's 2008-09 Budget (Paper No. 1, Statement 4) dealing with the role of infrastructure and skills in boosting Australia's productive capacity; a Commission paper on Australian and US productivity performance (Dolman, Parham and Zheng 2007) was used by the OECD in considering the contribution of economic geography to GDP per capita (Boulhol, de Serres and Molnar 2008); and several strands of the Commission's productivity research were also cited by the Australian Industry Group (2008) in a major report on growth prospects for the Australian economy.
- Outputs from the Commission's stream of labour market research are also in wide use. The 2007 Commission Staff Working Paper on the effects of health and education on labour force participation (Laplagne, Glover and Shomos 2007) was used in the Council of Australian Governments National Action Plan for Mental Health 2006-2011. The AIHW's report *Australia's Welfare 2007* (AIHW 2007b) drew on a number of Commission research outputs, including Lattimore (2007) and Abhayaratna and Lattimore (2006), when discussing labour force participation rates and disability service pension recipients. The WA Government used a 2001 Commission Staff Paper *Self-Employed Contractors in Australia* when introducing amendments to that state's *Independent Contractors Act*.
- *Trade & Assistance Review*, part of the Commission's suite of annual reporting, continues to be used widely in discussion of industry assistance and trends. For example, Commission estimates on effective rates of assistance for biofuels were used by the International Institute for Sustainable Development when assessing government support for ethanol and biodiesel in Australia (Quirke, Steenblik and Warner 2008). The ANAO also discussed the treatment of tax expenditures in the *Trade & Assistance Review* as part of a recent review of the completeness and reliability of the estimates reported in the annual Tax Expenditures Statement (ANAO 2008).

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- The Commission's research on rural and urban water issues continues to be used for research and policy formation. For example, Frontier Economics (2008) drew on the Commission's 2008 work on urban water in developing a pricing framework for the National Water Commission. The Australian Bureau of Statistics made use of a number of Commission reports in a special water issue of its 2007 report on *Australia's Environment: Issues and Trends* (ABS 2007b), including joint ABS and Commission research from 2006 on irrigated farms.
  - The Commission's independent assessment of the potential benefits of the National Reform Agenda continued to be used. For example, in discussing the need for further regulatory reform in a speech outlining the new Labor Government's deregulation agenda, the Minister for Finance and Deregulation drew on estimates of the total regulatory compliance cost burden for business in the Commission's 2007 study (Tanner 2008). A speech by the Head of Treasury, Ken Henry, on national reform also drew on estimates from the 2006 report of the potential benefits of reform in reducing business compliance costs (Henry 2008).
  - The OECD made widespread use of Commission research in 2007-08 within its own published research. This included use of Commission research on rural water (Appels, Douglas and Dwyer 2004) in a report on the sustainable management of water in agriculture (OECD 2008a); use of research on the role of auctions in allocating public resources (Chan, Laplagne and Appels 2003) in a draft recommendation on decommissioning schemes in the fishing sector (OECD 2008b); and use of Commission research on the national reform agenda (PC 2006b), water trading (Peterson et. al. 2004) and stranded irrigation assets (Roper, Sayers and Smith 2006) in the 2008 OECD *Economic Review of Australia* (OECD 2008c).
  - 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. Outputs from the Commission's supporting research program attracted seven editorials in major newspapers in 2007-08. To 30 June 2008, for the reports listed in box B.3, there were more than 45 500 external requests for the index pages on the Commission's website. There was a total of more than 101 500 external requests for the 59 supporting research reports for which website usage was tracked, and more than 23 500 requests for speeches by the Commission's Chairman.



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## C Government commissioned projects

**A broad indicator of the quality and impact of the Commission's work is provided by the nature and breadth of the public inquiries and research studies which it is requested by governments to undertake. The acceptance rate of the Commission's findings and recommendations provides a further broad indicator of quality and impact.**

**This appendix updates information provided in previous annual reports on public inquiries and other projects specifically commissioned by the Government. It includes summaries of 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 a summary of projects which the Government commissioned during the year and government responses to reports completed in 2007-08 and previous years. It also reports on commissioned projects received since 30 June 2008.

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
- government responses to reports from previous years.

Table C.1 summarises activity since the Commission's 2006-07 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
11-12-06	Australia's Consumer Policy Framework	AR 06-07	Report No. 45 signed 30-4-08	page 152	page 154
21-6-07	Market for Retail Tenancy Leases in Australia	AR 06-07	Report No. 43 signed 31-3-08	page 155	page 156
17-10-07	Safeguards Inquiry into the Import of Pigmeat	AR 06-07	Report No. 44 signed 31-3-08	page 159	page 160
27-2-08	Improved Support for Parents with New Born Children	page 149	in progress	na	na
20-6-08	Inquiry into Government Drought Support	Page 151	in progress	na	na
<b>Other commissioned projects</b>					
28-2-07	Annual Review of Regulatory Burdens on Business – Primary Sector	AR 06-07	Report completed 5-11-07	page 160	na
4-4-07	Assessing Local Government Revenue Raising Capacity	AR 06-07	Report completed 4-4-08	page 162	na
27-7-07	Chemicals and Plastics Regulation	AR 06-07	Report completed 28-7-08	page 163	page 164
5-9-07	Business Regulation Benchmarking: Stage 2	AR 06-07	in progress	na	na
4-4-08	Modelling Economy-Wide Effects of Future Automotive Assistance	page 165	Report completed 30-5-08	page 166	na
10-4-08	2008 Review of the Mutual Recognition Agreement and the Trans-Tasman Mutual Recognition Agreement	page 150	in progress	na	na
10-4-08	Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector	page 151	in progress	na	na
22-5-08	Modelling Economy-Wide Effects of Future TCF Assistance	page 166	Report completed 30-6-08	page 167	na
28-2-07*	Annual Review of Regulatory Burdens on Business – Manufacturing Sector and the Distributive Trades	AR 06-07*	Report completed 29-8-08	page 168	na

na not applicable. Note: References are to previous annual reports (AR) of the Productivity Commission. \*: Terms of reference for this project were included in those announced for the Annual Review of Regulatory Burdens on Business – Primary Sector on 28 February 2007.

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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 2006-07 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.

### Improved Support for Parents with New Born Children

On 17 February 2008, the Deputy Prime Minister, the Treasurer and the Minister for Families, Housing, Community Services and Indigenous Affairs jointly announced that the Commission would examine ways in which the Government can provide improved support to parents with new born children.

In undertaking the inquiry, the Commission is to:

- identify the economic, productivity and social costs and benefits of providing paid maternity, paternity and parental leave
- assess the current extent of employer-provided paid maternity, paternity and parental leave in Australia
- identify paid maternity, paternity and parental leave models that could be used in the Australian context
- assess those models for their potential impact on:
  - the financial and regulatory costs and benefits on small and medium-sized business
  - the employment of women, women's workforce participation and earnings and the workforce participation of both parents more generally
  - work/family preferences of both parents in the first two years after the child's birth;
  - the post-birth health of the mother
  - the development of young children, including the particular development needs of newborns in their first 2 years
  - relieving the financial pressures on families
- assess the cost effectiveness of these models
- assess the interaction of these models with the Social Security and Family Assistance Systems

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- assess the impacts and applicability of the various models across the full range of employment forms (such as the self-employed, farmers, and shift workers)
  - assess the efficiency and effectiveness of government policies that would facilitate the provision and take-up of these models.

The Commission is required to produce a final report by the end of February 2009.

### **2008 Review of the Mutual Recognition Agreement and the Trans-Tasman Mutual Recognition Arrangement**

On 10 April 2008, the Assistant Treasurer asked the Commission to undertake a review of the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA) and to report within nine months of receipt of the reference. This follows an earlier review undertaken by the Commission in 2003.

The Commission is to:

- assess the coverage, efficiency and effectiveness of the MRA and TTMRA since the 2003 Review, with particular attention to the implementation of that review's findings, and to matters identified by the Cross Jurisdictional Review Forum and the COAG Skills Recognition Steering Committee
- assess how the administrative provisions (such as the annual roll-over of the special exemptions under the TTMRA) can be amended and/or enhanced to support the more efficient operation of the MRA and/or TTMRA
- examine whether any components of overseas models of mutual recognition or any other changes might be made to enhance the functioning of the MRA and TTMRA
- explore any possible implications for the operation of the TTMRA arising from participating jurisdictions' bilateral engagement with third countries.

In undertaking the research study, the Commission is to consult relevant stakeholders in Australia and New Zealand, including the Cross Jurisdictional Review Forum and the COAG Skills Recognition Steering Committee.

### **Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector**

On 10 April 2008, the Australian Government asked the Commission to undertake a review of Australia's framework for upstream petroleum regulation and to report within 12 months of commencing the study. This followed a recommendation for a



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broad review of the Australian petroleum regulation framework by the Commission in its 2007 report *Annual Review of Regulatory Burdens on Business: Primary Sector*.

The current review is to consider opportunities for streamlining regulatory approvals, providing clear timeframes and removing duplication between jurisdictions. In undertaking the study the Commission is to:

- assess the impact of the current regulatory framework on the international competitiveness and economic performance of Australia's petroleum sector and on the performance of the economy as a whole
- report on regulatory impediments to improved performance, including inconsistencies and duplication across jurisdictions, and ways in which governments in Australia could address them
- consider options for a national regulatory authority to manage all regulatory approvals for the upstream petroleum industry as a means of addressing issues of regulatory duplication and inconsistencies.

In conducting the study the Commission is to have regard to any other current or recent reviews commissioned by Australian governments affecting the regulatory burden faced by businesses in the upstream petroleum sector; and to the underlying policy intent of government regulation on the upstream petroleum sector.

### **Inquiry into Government Drought Support**

On 20 June 2008, the Australian Government asked the Commission to undertake an inquiry into government assistance for drought events. The inquiry will be supported by other work to assist its review of drought policy, including an Expert Panel review of the social impacts of drought and a climatic assessment by the Bureau of Meteorology (BOM) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

The Commission's inquiry is to report on the appropriateness, effectiveness and efficiency of current Commonwealth, state and territory governments' business support and income support measures provided to help farmers, farm businesses and farm dependent rural small businesses manage drought. The impacts of this support on performance and productivity at the individual, business, industry, regional and state levels are to be examined.

The Commission has also been asked to:

- identify impediments to farmers, farm businesses and farm dependent rural small businesses improving self reliance and preparedness for periods of financial difficulty

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- identify the most appropriate, effective and efficient Commonwealth, state and territory government response to build farmers', farm businesses' and farm dependent rural small businesses' self reliance and preparedness to manage drought.

With reference to the findings of the Expert Panel and the BoM and CSIRO, the Commission has been asked to examine the interaction between current government social support services and business support and income support measures, and the impact of social support services on self reliance, preparedness and performance.

The Commission is to produce a draft report by the end of October 2008 and a final report by the end of February 2009.

## **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 9 October 2008. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

### **Review of Australia's Consumer Policy Framework**

Inquiry Report No. 45 signed 30 April 2008, report released 8 May 2008.

The Commission's main findings and recommendations were that:

- While Australia's consumer policy framework has considerable strengths, parts of it require an overhaul.
  - The current division of responsibility for the framework between the Australian and State and Territory Governments leads to variable outcomes for consumers, added costs for businesses and a lack of responsiveness in policy making.
  - There are gaps and inconsistencies in the policy and enforcement tool kit and weaknesses in redress mechanisms for consumers.
  - These problems will make it increasingly difficult to respond to rapidly changing consumer markets, meaning that the associated costs for consumers and the community will continue to grow.
- Addressing these problems will have significant direct benefits for consumers. Also, by better engaging and empowering consumers and furthering the development of nationally competitive markets, reform will enhance productivity and innovation.

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- A set of clear objectives and supporting principles is required to anchor the future development of consumer policy.
    - The overarching objective should be to improve consumer wellbeing by fostering effective competition and enabling the confident participation of consumers in markets in which both consumers and suppliers can trade fairly and in good faith.
  - A pressing need is to put in place institutional arrangements that are more compatible with the increasingly national nature of Australia's consumer markets and which will deliver more timely and effective policy change than the current regime.
    - In keeping with many of the other key policies governing commerce in Australia, greater responsibility for consumer policy development and enforcement should reside with the Australian Government.
  - The first step in this process should be the introduction of a single generic consumer law applying across Australia, based on the consumer provisions in the Trade Practices Act (TPA), modified to address gaps in its coverage and scope.
    - The Australian Government, through the Australian Competition and Consumer Commission (ACCC), should be responsible for enforcing the product safety provisions nationally, though possibly with scope for States and Territories to implement time-limited, interim product safety bans.
    - The remaining provisions should be jointly enforced by the ACCC and State and Territory consumer regulators, though individual States and Territories should have the option to refer their enforcement powers to the Australian Government.
    - The new law should include a provision voiding 'unfair' contract terms that have caused consumer detriment.
    - In addition to the enforcement tools currently in the TPA, it should provide for civil pecuniary penalties, banning orders and substantiation and infringement notices.
  - Responsibility for regulating the provision of consumer credit and related advice by finance brokers and other intermediaries should also be transferred to the Australian Government as soon as practicable, with the Australian Securities and Investments Commission (ASIC) as the primary regulator.
  - COAG, in consultation with the Ministerial Council on Consumer Affairs, should oversight a general reform program for industry-specific consumer regulation to:

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- identify and repeal unnecessary industry-specific consumer regulation, with an initial focus on removing regulations that apply in only one or two jurisdictions
  - identify other areas of specific consumer regulation where divergent requirements and/or lack of policy responsiveness are particularly costly
  - determine how these costs should be reduced, including explicit consideration of the case for transferring policy and, where appropriate, enforcement responsibilities to the Australian Government.
- In addition:
    - Some particular regulatory requirements for consumer credit, utility services and home building should be modified.
    - Consumers' access to remedies where they suffer detriment from breaches of consumer law, should be enhanced by consolidating some ombudsman arrangements; streamlining small claims courts' procedures; making it easier for regulators to bring representative actions; and increasing funding for legal aid and financial counselling services.
    - Mandatory disclosure requirements should be improved by more 'layering' of the information provided to consumers and greater testing of its comprehensibility and relevance to them.
    - Subject to appropriate governance arrangements, there should be additional public funding for consumer advocacy and for policy related research, including to enable the establishment of a National Consumer Policy Research Centre.
  - Many of the Commission's proposals would benefit vulnerable and disadvantaged consumers, with some being primarily designed to assist these groups. However, for some groups, specific additional strategies may be required.
  - The proposed changes would also further the economic integration goals of the Australian and New Zealand Governments.
  - Though only very broad quantification is possible, the Commission's reform package could provide a net gain to the community of between \$1.5 billion and \$4.5 billion a year.

### *Government decision*

In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the *Trade Practices Act 1974* and drawing on the recommendations of the

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Commission and best practice in State and Territory consumer laws (COAG 2008c, p. 2). As part of this new framework:

- the Commonwealth is to assume responsibility for the making of permanent product bans and standards under the *Trade Practices Act 1974*, with the ACCC and States and Territory offices of fair trading sharing responsibility for enforcement of product safety law
- transfer of responsibility of remaining areas of consumer credit to the Commonwealth will occur via a phased implementation plan, following an earlier COAG decision that the Commonwealth would assume responsibility for the regulation of mortgages, mortgage broking, margin lending and all remaining areas of consumer credit, such as pay-day lending and financial counselling services.

In addition, COAG is also reviewing occupational regulations only applying in one or two jurisdictions, which the Commission indicated warranted early attention.

In accordance with a further Commission recommendation, on 22 July 2008 the Assistant Treasurer also announced changes to the configuration of the Commonwealth Consumer Affairs Advisory Council (CCAAC). In announcing these changes, the Assistant Treasurer stated:

... I want to address the Productivity's Commission's recent recommendation that the operations of CCAAC should be enhanced through ensuring that the Council has members who have consumer policy expertise and bring a national perspective to its advisory functions. (Bowen 2008b)

## **Market for Retail Tenancy Leases in Australia**

Inquiry Report No. 43 signed 31 March 2008, report released 27 August 2008.

The Commission's main findings and recommendations in the final report were that:

- The market for retail tenancies is dynamic and complex. It is an amalgam of large and small businesses participating as landlords and tenants.
  - There are around 290 000 retail tenancy leases in Australia with up to 58 000 written each year.
  - About one fifth of leases are in shopping centres with the remainder in retail shopping strips and other retail formats.
  - The legislation is highly prescriptive and has grown in volume — now amounting to some 700 pages across jurisdictions.

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- Significant and widening differences between jurisdictions persist, despite attempts at harmonisation.
  - Aspects of the legislation have constrained the market, lowered productivity and added to compliance and administrative costs.
  - Nevertheless, a number of innovations appear to have been useful, in particular:
    - simple, low-cost and accessible dispute resolution; disclosure statements; lease information; and the encouragement of registration of leases in some jurisdictions.
  - In an environment where the market is working reasonably well overall, further attempts to prescribe lease terms and conditions would not improve outcomes.
  - The Commission considers the most fruitful approach to improving the operation of the retail tenancy market and reducing costs would be to:
    - further improve transparency, disclosure and dispute resolution, to reduce information imbalances and unwind constraints on efficient decision making
    - reduce the prescriptiveness of legislation and move to a nationally consistent retail lease framework, to increase efficiency and reduce costs
    - adopt a more focused approach to the shopping centre segment of the market, through the introduction of a national shopping centre code of conduct, to ease tensions and reduce costs in that segment and to support the move to less prescriptive legislation and national consistency.
  - In addition, the potential to relax planning and zoning controls that limit competition and restrict retail space and its utilisation warrants further examination.

### *Government decision*

On 27 August 2008 the Commonwealth Government announced agreement or in-principle agreement with all but one of the Commission's recommendations. The Government:

- supported the use of simple (plain English) language in all tenancy documentation and state and territory governments reviewing the application of the use of simple language in tenancy documentation within the process of harmonisation of retail legislation across jurisdictions
- supported state and territory governments investigating the availability of clear and obvious contact points for information on lease negotiation, lease registration and dispute resolution

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- agreed with the Commission’s proposal that a one page summary of all key lease terms be included in retail lease documentation. However, the Commonwealth also stated a concern that tenants may rely solely on the information contained in the one page summary and may not fully understand their contractual obligations as a result. In light of this concern, the Commonwealth supported further examination by state and territory governments of the appropriateness of a one page summary of key terms and conditions
  - agreed in principle to the facilitation of lodgement of a standard one page lease summary at a publicly accessible site. However, it had concerns that the information may not always be current and may not contain information that fully reflects the terms and value of a lease. The Commonwealth also had concerns that reliance on this information may potentially increase disputes and business failures, and may reduce due diligence and the propensity for appropriate legal and financial advice to be sought. As such, the Government stated that, if this recommendation is to be implemented, it would want to be assured that it offers net benefits to retail tenancy participants
  - supported harmonisation of retail tenancy legislation across jurisdictions as a means of improving information and transparency, and reducing the cost of doing business for retailers and landlords who operate across borders. While the Commonwealth considered it appropriate for state and territory governments to determine the most effective mechanism to ensure consistency in legislation across jurisdictions as part of the process of harmonisation, it also stated that it encouraged state and territory governments to consider the merits of developing a key set of items (and terminology) to be included in all retail tenancy leases and in disclosure statements that might improve the transparency of lease obligations, particularly for new entrants to the market
  - supported state and territory governments, in the process of harmonisation, investigating the merits of nationally consistent reporting on the incidence of tenancy enquiries, complaints and dispute resolution
  - supported state and territory governments examining the merits of aligning unconscionable conduct provisions, in the context of lowering the incidence and cost of disputation, and therefore improving the efficient operation of the tenancy market. Alignment across jurisdictions was also seen as reducing compliance costs for retailers that operate, or intend to operate, across borders
  - saw merit in a code of conduct as an alternative to prescriptive legislation. In this context the Commonwealth offered in-principle support for state and territory governments to consider options for a code that would be appropriate for the retail tenancy market. However, it cautioned that a code should not be an additional layer of regulation and should only be pursued if the current legislative arrangements could be reformed appropriately to avoid any increases

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in complexity, regulation and compliance costs for business, especially for small business

- encouraged state and territory governments to examine the appropriateness of establishing nationally consistent model legislation, including consistency in processes for lease negotiation, operation, dispute resolution and information disclosure as part of the harmonisation process
- considered that unwarranted restrictions resulting from some planning and zoning regulations can influence the quantity and location of retail space available and therefore competition in the retail market, particularly for shopping centre tenants. The Commonwealth therefore encouraged state and territory governments, where practicable in the context of urban design and preserving public amenity, to consider relaxing restrictions that limit competition.

The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies. The Commonwealth considered there was a need to distinguish between retail and commercial tenancies given the importance of location for retailers, and that current legislation provides important protections in this respect. However, its view was that any provisions, apart from those that offer location safeguards, that detract from operational efficiency generally or unduly apply compliance costs for small business should be reviewed as part of the harmonisation of state and territory laws.

The Commonwealth Government also stated that to ensure a holistic approach by the Commonwealth and state and territory governments, it was appropriate for these issues to be considered under the auspices of the Council of Australian Governments (COAG). It further stated that the most appropriate mechanism for considering and progressing these issues under COAG, and in the broader context of regulatory and competition reform, was through COAG's Business Regulation and Competition Working Group (BRCWG).

## **Safeguards Inquiry into the Import of Pigmeat**

Inquiry Report No. 42 (Accelerated Report) signed 14 December 2007, report released 20 December 2007. Inquiry Report No. 44 signed 31 March 2008, report released 4 April 2008.

In October 2007 the Commission was asked by the Australian Government to inquire into whether safeguard action under the World Trade Organization (WTO) rules was justified against imports of 'meat of swine, frozen', falling within tariff subheading 0203.29. Safeguard action is temporary, 'emergency action' (typically employing tariffs, tariff-quotas or quotas) where a surge of imports causes or



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threatens to cause serious injury to a domestic industry. Safeguard measures can apply for up to four years.

In addition to a final inquiry report, which was to be completed by the end of March 2008, the Commission was asked to provide an ‘accelerated report’ by 14 December 2007, as to whether *provisional* safeguard measures should be put in place. Provisional measures may be taken in ‘critical circumstances’ and pursuant to a preliminary determination that increased imports are causing or threatening such injury that delay in taking action would cause damage which is ‘difficult to repair’.

The Accelerated Report found no clear evidence that increased imports had caused or were threatening to cause serious injury to the domestic industry. Rather, higher domestic feed prices appeared to be the principal cause of serious injury. As such, the Accelerated Report determined against provisional action.

In its final report, the Commission’s main finding was that increased imports had not caused and were not threatening to cause serious injury to the domestic industry. The overwhelming cause of serious injury was found to be higher domestic feed costs. The Commission accordingly found that safeguard action against imports of frozen pigmeat was not warranted.

The Commission also did not consider that the pigmeat industry has a strong case for additional government assistance. At a minimum, before any further assistance were contemplated, existing government-funded programs should be properly evaluated. Any proposal for additional measures would then need to be shown to be of net benefit to the Australian community, not just industry interests.

The final report also contained a number of recommendations, including that:

- Governments should undertake periodic reviews of pig animal welfare regulation, to ensure that it is imposing the minimum compliance requirements necessary to achieve its objectives.
- Commonwealth and State and Territory Governments should continue work on promoting consistency of regulations across jurisdictions, including more harmonised implementation and enforcement processes where appropriate. Some of the major ‘hot spots’ for reform identified by the pigmeat industry include animal welfare, OH&S, food and ethanol regulation.
- Regular independent reviews are necessary to ensure that government R&D funding directed to the pigmeat industry delivers net benefits to the community, and continues to satisfy program criteria. More detailed information needs to be provided by industry bodies on the performance of R&D projects that are funded by government, including evaluations of benefits and costs.

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- Industry programs that operate in conjunction with government support, such as initiatives funded by the pig levy, need to be regularly and transparently reviewed.
  - There should be a review into the overall economic impact of current and proposed policies relating to ethanol. The review, which could encompass assistance for other biofuels, should consider the impact of policies promoting ethanol production on consumers and other industries, including grain users.
  - Quarantine arrangements should impose only the minimum requirements needed to satisfy objectives. As new options emerge for dealing with quarantine risks, arrangements should be reviewed to take them into account. The current Quarantine and Biosecurity Review is well placed to further explore these issues.
  - The remaining moratoriums on the commercial release of genetically modified canola should only continue if objective evidence indicates that the potential costs of GM canola are greater than its potential benefits. Current evidence suggests this is probably not the case.

### *Government decision*

The Australian Government's final response to the Commission's report was tabled in Parliament on 4 June 2008 (DAFF 2008). The response provided agreement or in-principle agreement to all of the Commission's recommendations.

The response noted that the Commission's accelerated report found that provisional safeguard action could not be taken against pigmeat imports at that time. It further noted that the Commission's final report also found that safeguard action was not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. Accordingly, on 8 April 2008, the government notified the WTO that the safeguards investigation had been terminated, and that it would not impose safeguard measures. The response also noted the Commission's view that existing government-funded programs should be properly evaluated before any further assistance to the pig industry is contemplated.

## **Annual Review of Regulatory Burdens on Business — Primary Sector**

Research Report completed 5 November 2007, report released 19 December 2007.

This study looked to remove or reduce Australian Government regulations which are unnecessarily burdensome, complex or redundant or are duplicative across portfolios or with state and territory regulation. The Commission's main findings and recommendations were:

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- From the perspective of farmers, mining companies and other primary sector businesses, governments impose a heavy burden of regulation.
  - The effectiveness of regulatory reform efforts would be enhanced if there were greater coordination among all jurisdictions.
  - Many Australian Government agencies have processes in place to identify and progressively remove unnecessary regulatory burdens, while still meeting policy objectives.
  - The Commission identified actions which the Australian Government can take without delay, including:
    - removing duplication in applying for drought assistance
    - amending Part IIIA of the Trade Practices Act to provide greater clarity and transparency
    - ensuring employers can more easily check the work eligibility of overseas visitors
    - improving communication about the significant impact trigger under the Environment Protection and Biodiversity Conservation Act (EPBC Act)
    - undertaking negotiations for specific bilateral agreements for approvals under the EPBC Act.
  - In a number of cases, where reforms have been agreed to by governments at the policy level, primary sector businesses have yet to see tangible results. It is taking too long to:
    - adopt and implement the National Mine Safety Framework
    - remove barriers to the recognition of skills acquired across borders and/or under the Vocational Education and Training framework
    - remove inter-jurisdictional inconsistencies in the regulation of road transport.
  - A number of potentially unnecessary regulatory burdens can only be removed after a full policy and framework review, including:
    - market arrangements for wheat exports
    - the regulation of onshore and offshore petroleum
    - coastal shipping, as part of the national transport market reform agenda
    - whether the mining of uranium should remain a matter of national environmental significance
    - the reporting thresholds and funding of the National Pollutant Inventory.

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- The removal of unnecessarily burdensome regulations relating to agricultural chemicals and veterinary medicines is being addressed in the Commission's study into chemicals and plastics regulation.
  - There are some regulatory design issues of particular relevance to the primary sector, including a need for:
    - evidence-based risk assessments and rational risk management
    - assessments of the loss of property rights imposed by regulatory changes which are aimed at achieving community-wide objectives.

## **Assessing Local Government Revenue Raising Capacity**

Research Report completed 4 April 2008, report released 17 April 2008.

The Commission's main findings were:

- There is considerable variation, in per person terms, in both own-source revenue raised and grants received by local governments in Australia.
- Expenditure per person varies considerably across councils. Rural and remote councils have higher expenditure per person, on average, compared with urban councils. This is largely explained by the inability of rural and remote councils to capture scale economies, having to pay higher input costs, maintaining more kilometres of roads per person and undertaking a relatively more extensive service mix.
- Revenue-raising effort, a measure of how much own-source revenue a local government raises relative to its income base, varies significantly within and between classes of local governments. Capital city, urban regional, rural and remote local governments have the highest average revenue-raising efforts, when adjusted for population size.
- A sophisticated benchmarking analysis of the relative potential of local governments to increase their own-source revenue suggests that, on average, councils are raising about 88 per cent of their hypothetical benchmarks. Whether a council can realise its assessed potential to raise additional revenue will depend on its individual circumstances. (The scope for raising additional revenue should not be taken to imply that local governments *should* increase the revenue they raise.)
- A number of councils, particularly in capital city and urban developed areas, have the means to recover additional revenue from their communities sufficient to cover their expenditures without relying on grants. However, a significant number of councils, particularly in rural (87 per cent) and remote (95 per cent)

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areas would remain dependent on grants from other spheres of government to meet their current expenditure. Some councils would remain highly dependent on grants.

- Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments.
- There is scope to utilise further the existing institutional arrangements between Australian and State Governments, local government associations and local governments to promote best practice in all aspects of revenue and expenditure decisions by local governments.

## **Chemicals and Plastics Regulation**

Research Report completed 25 July 2008, report released 7 August 2008.

The Commission's main findings and recommendations were:

- Chemicals and plastics contribute to our wellbeing, but some can pose substantial risks to health and the environment. Government intervention to manage risks is warranted where benefits materially exceed costs.
- Chemicals regulations are generally grafted onto (differing) state and territory Acts that deal with public health, workplace safety, transport safety, environment protection and national security.
- Current regimes are broadly effective in managing risks to health and safety, but are less effective in managing risks to the environment and national security. Efficiency can be improved through national uniformity in most areas.
- The Commission proposes building a governance framework that enhances national uniformity by addressing failures at four levels.
- *Level 1 — policy development and regime oversight.* A national function through ministerial councils supported by intergovernmental agreements:
  - chemicals policy coordination should be undertaken by an officer-level, cross-council standing committee on chemicals.
- *Level 2 — assessment of chemical hazards and risks.* An Australian Government science-based function undertaken under statutory independence:
  - the industrial chemicals agency should undertake assessments, not set risk management standards.

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- *Level 3 — risk management standards setting.* A national function by expert-member agencies operating within the policy frameworks of the ministerial councils:
    - poisons scheduling should be separated from drugs
    - maximum residue levels for domestically produced foods that are set by APVMA should be automatically included in the food standards code, with right of change by FSANZ and the Australia and NZ Food Regulation Ministerial Council
    - while replacement of the workplace safety agency (ASCC) by an independent agency is supported, it should not be a tripartite representative body
    - the effectiveness of new model regulations for transport needs to be monitored
    - an environmental risk management standards body should be established
    - risk management of chemicals of security concern (including ammonium nitrate) should adopt the Commission’s governance framework.
  - *Level 4 — administration and enforcement.* Generally jurisdiction-specific:
    - all standards should be adopted in a uniform or nationally consistent manner by administering agencies
    - control of use of agvet chemicals should be consolidated under the APVMA but delivered through service level agreements by the states and territories.
  - Australia should defer adopting the Globally Harmonised System of Classification and Labelling of chemicals until the benefits from trade can be demonstrated.

### *Government decision*

At its 3 July 2008 meeting, the COAG Ministerial Taskforce on Chemicals and Plastics Regulatory Reform announced a series of ‘early harvest’ reforms which endorse elements of the reform blueprint proposed by the Commission. COAG also requested that actions in response to the Commission’s final report be brought forward for COAG to consider at its October 2008 meeting.

The COAG communiqué of October 2 2008 welcomed the Commission’s final report and:

agreed that improved and better coordinated governance structures are required to advance reform in this area. (COAG 2008c, p. 7)

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Accordingly, it directed the Ministerial Taskforce on Chemicals and Plastics Regulatory Reform to develop a governance structure for oversight of regulatory reform for further consideration. It also announced that relevant ministerial councils would report in November 2008 on responses and implementation plans for the relevant recommendations in the Commission's report.

## **Modelling Economy-Wide Effects of Future Automotive Assistance**

Research Report completed 30 May 2008, report released 5 June 2008.

On 14 February 2008, the Australian Government commissioned a review of the current assistance program in the automotive industry by a panel headed by the former Premier of Victoria, the Hon. Steve Bracks. When announcing the review, it was foreshadowed that the Government would separately request the Commission to undertake modelling of the economy-wide effects of a number of future assistance options. On 4 April 2008 the Assistant Treasurer asked the Commission to undertake this modelling, focussing on eight suggested scenarios contained in an accompanying letter from Mr Bracks.

The options that the Commission was asked to model covered a number of combinations of tariffs and levels of assistance provided under the Automotive Competitiveness and Investment Scheme (ACIS). These included:

- a base case scenario involving current automotive industry support arrangements including a reduction in the passenger motor vehicle and parts thereof tariffs from 10 per cent to 5 per cent on 1 January 2010, the change to ACIS funding under Stage 3 and the introduction of the Green Car Innovation Fund
- reducing the passenger motor vehicle and parts thereof tariff to 5 per cent on 1 January 2010 but increasing support under current ACIS arrangements (that is, through the issuance of duty credits)
- reducing the passenger motor vehicle and parts thereof tariff to 5 per cent on 1 January 2010 but increasing support under different ACIS arrangements (that is, through the issuance of duty credits)
- maintaining the passenger motor vehicle and parts thereof tariff at 10 per cent post-2010 and maintaining the current ACIS support arrangements
- maintaining the passenger motor vehicle and parts thereof tariff at 10 per cent post-2010 but increasing support under the current ACIS arrangements (that is, through the issuance of duty credits)
- maintaining the passenger motor vehicle and parts thereof tariff at 10 per cent post-2010 but discontinuing ACIS

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- reducing all automotive tariffs to zero post-2010 and discontinuing ACIS
  - maintaining the base case scenario but increasing the exchange rate to \$A/\$US parity so as to determine the sensitivity of the industry to further movements in the exchange rate.

To model these options, the Commission used a model of the Australian economy known as the MMRF model (developed by the Centre of Policy Studies at Monash University). The modelling consistently indicated that further reductions in automotive assistance, particularly tariffs, could be expected to yield net economy-wide benefits. It also suggested that the benefits would be larger under the current assistance reduction program than options entailing lesser reductions. The model projected potential net benefits to the community of some \$0.5 billion a year under this program, with gains to consumers and other industries outweighing negative impacts on the automotive industry. Modelling also confirmed that a significant further appreciation of Australia's currency, associated with the mining boom, would have a much greater impact on the automotive industry than scheduled tariff reductions.

In the Commission's assessment, these conclusions were not materially affected by consideration of factors not captured directly by the model, such as adjustment costs and scale economies.

### **Modelling Economy-Wide Effects of Future TCF Assistance**

Research report completed 30 June 2008, report released 8 July 2008.

As part of a broader review exercise of the textiles, clothing and footwear (TCF) sector by Professor Roy Green, the Commission was requested by the Australian Government to undertake modelling of future assistance options in the sector. The Assistant Treasurer wrote to the Commission on 22 May 2008 to request its involvement, focussing on a number of different modelling scenarios and sensitivity analyses as contained in an accompanying letter from Professor Green.

The Commission was asked to model policy options covering a mix of tariff rates and levels of budgetary support. These included a base case scenario involving current TCF industry support arrangements, including current tariff arrangements under Australia's negotiated Free Trade Agreements and the current five programs and tariff pause announced under the TCF Post-2005 Assistance package. Seven other modelling scenarios, including a request to model maintaining the base case scenario but increasing the exchange rate to \$A/\$US parity, were also included. Reflecting particular concerns of the review, the Commission was also asked to carry out sensitivity simulations involving different assumptions about the degree of



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‘pass through’ of tariff reductions in retail prices for consumers and about the ability of displaced workers to find re-employment. A further request was to model small productivity improvements in the industry posited to result from subsidies.

The Commission’s main findings from its modelling and associated analysis included the following:

- The textiles, clothing and footwear (TCF) sector currently receives assistance amounting to more than \$0.5 billion a year in net terms.
  - This equates to an effective rate of assistance of 12 per cent, nearly three times the average for Australian manufacturing. Clothing producers receive a much higher rate than textiles and footwear producers.
- Modelling projects net gains to the community from the current program of phased reductions in assistance.
  - The projected annual gains are relatively small from an economy-wide perspective, given the small size of the TCF sector itself.
  - Nearly all of the benefits come from the legislated reductions in tariffs rather than removal of financial support (which is much smaller in magnitude and does not increase prices).
  - Options involving smaller reductions in assistance generate smaller gains.
- Reductions in assistance place further pressure on TCF production and employment.
  - But they reduce total burdens on consumers and taxpayers amounting to nearly \$1.5 billion annually.
  - They also ease the export ‘tax’ effect of industry assistance and enable internationally competitive industries to attract the resources they need to expand.
- The modelling projects net gains from scheduled assistance reductions even when, as requested, applying such restrictive assumptions as tariff cuts not being fully passed on in lower consumer prices, or a related permanent increase in national unemployment.
- A simulated increase in the real exchange rate resulting from a 10 per cent increase in demand for Australia’s minerals has more than double the impact of scheduled assistance reductions on TCF production and jobs.
  - Seeking to resist such pressures through assistance to TCF would come at a cost to the economy.
- Any policy-induced improvements to productivity would moderate pressures on the TCF sector and enhance economy-wide gains.

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- But whereas reducing tariffs would likely spur innovation and productivity growth, budgetary support for innovation would only bring net benefits if it generated additional spillovers worth more than the additional costs.

## **Annual Review of Regulatory Burdens on Business — Manufacturing Sector and the Distributive Trades**

Research report completed 29 August 2008, report released 16 September 2008.

On 28 February 2007, the Treasurer announced a program of annual reviews of the burdens on business arising from the stock of Australian Government regulation. The cycle commenced in April 2007 with a review of regulatory burdens on businesses in Australia's primary sector.

The second yearly review reported on regulatory burdens in the manufacturing sector and distributive trades. The Commission's main findings and recommendations were:

- Regulation of the manufacturing and distributive trades sectors is complex and diverse, involving all tiers of government. This study proposes the reduction of specific Australian Government regulations which are unnecessarily burdensome for businesses in these sectors. These initiatives build on the significant amount of reform currently underway, including the expanded COAG regulation reform agenda.
- Many of the concerns raised by businesses related to jurisdictional differences in the implementation and enforcement of regulations. While governments are pursuing greater uniformity, this process is ongoing but incomplete, leading to a level of frustration by businesses.
- A common concern of businesses was poor communication with regulators. The information provided by regulators could be difficult to access, inconsistently communicated or costly to understand. Poor communication can also be a barrier to small businesses entering markets as they may be less able either to employ or to contract expert assistance to understand the regulations affecting them.
- Concerns which were the subject of other reviews (such as chemicals and plastics) have been referred to the relevant agency. This review has identified and addressed three main areas.
- Food regulation can be made less burdensome by
  - increasing national consistency of regulation
  - improving timeliness and transparency of decision making by the Australia New Zealand Food Regulation Ministerial Council

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- ensuring public health issues are considered by the Health Ministers’ Conference before referring any food regulation-related issues to the Australia New Zealand Food Regulation Ministerial Council.
  - The frameworks for approving and registering new medicines and medical devices can be streamlined by
    - reducing the time and cost, and improving the transparency, of assessment processes by the Therapeutic Goods Administration (TGA)
    - improving coordination between regulators where regulatory processes overlap
    - removing the TGA’s monopoly on conformity assessment for Australian manufacturers of medical devices by allowing manufacturers to choose a certification body approved by the TGA
    - a comprehensive review of health technology assessment processes.
  - Compliance and enforcement of environmental regulations can be improved to ensure the policy objectives are being achieved and that complying businesses are not disadvantaged. These regulations include
    - the Water Efficiency Labelling and Standards Scheme
    - energy labelling and minimum energy performance standards.

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

There were no government responses in 2007-08 to reports from previous years.



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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 two formal complaints in 2007-08 and completed an investigation for a complaint received during 2006-07. Details of the investigation and action taken in relation to the two complaints are summarised in this appendix.

### Investigations completed in 2007-08

#### Real Estate Institute of Australia

In May 2007, the AGCNCO received a competitive neutrality complaint from the Real Estate Institute of Australia (REIA) regarding Defence Housing Australia's (DHA) exemptions from licensing requirements for the provision of property sales and management services.

The REIA alleged that DHA acts as a real estate agent in the sale of its properties and the lease back arrangements it had with private investors. As such, the REIA claimed that DHA's exemption from licensing and other subsequent regulatory requirements is 'anti-competitive, providing a more favourable business environment for DHA than for private sector real estate business'. In particular, the REIA considered that DHA was advantaged as a result of it being exempt from having to employ licensed real estate agents and the subsequent requirements placed on businesses employing licensed agents, including:

- continued professional development for agents (mandated in some jurisdictions)
- maintaining a registered office
- complying with prudential requirements such as trust accounts for bonds paid by customers and insurances, including professional indemnity and fidelity insurance.

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After an initial investigation, which included meetings with both REIA and DHA, the AGCNCO proceeded to a formal investigation. DHA subsequently provided the AGCNCO with a written response to the REIA's complaint, as well as formal legal advice from the Australian Government Solicitor on the application of State and Territory real estate legislation to DHA.

The findings of the investigation report, released in April 2008, were that in relation to the purchase and sale of property, DHA conducts these operations as a property owner and does not act on the behalf of others. Leaseback arrangements under the sale and lease back program are also formed as a commercial relationship between DHA and individual private investors. As the various State and Territory legislation (with the exception of South Australia) does not require a person or business to be licensed when purchasing, selling or leasing their own property, DHA or its staff are not required to be licensed as a real estate agent or to comply with the subsequent regulations relating to licensed agents. Irrespective of this, DHA uses licensed real estate agents to conduct the majority of its transactions.

In the case of South Australia, where the activities of the DHA could be considered as conducting business consisting of dealing with property on their behalf (the *Land Agents Act 1994* requires those the dealing with property on a commercial basis to be licensed as real estate agents), DHA employs licensed agents, thereby complying with the legislation.

The AGCNCO found that DHA did not gain a regulatory advantage as a result of being government owned. Thus, DHA did not breach regulatory neutrality provisions. Consequently, the AGCNCO found that no further action was required in relation to this complaint.

## **Complaints received in 2007-08**

The AGCNCO received two formal complaints during the 2007-08 period. One complaint was not investigated as the matter fell outside the purview of the AGCNCO. The other complaint was subject to an initial investigation, after which it was found there were no grounds to proceed.

In September 2007, the AGCNCO received a complaint from an individual regarding the Australian Taxation Office's (ATO) use of an on-line tax system (e-tax service). The complainant alleged that in order to use the on-line tax system a copy of a particular operating system has to be purchased and this places competing operating systems at 'a disadvantage'. The complainant alleged that 'the ATO could therefore be considered to be favouring one commercial product and thus reducing

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competition'. The complainant was advised that the issue fell outside competitive neutrality policy.

In October 2007, the AGCNCO received a complaint in relation to Airservices Australia's (Airservices) provision of aerodrome rescue and fire fighting (ARFF) services at Townsville airport. The complainant alleged that, because of the cross-subsidy pricing model applied by Airservices, they were unable to compete for the provision of ARFF services.

Following discussions with Airservices, the AGCNCO did not proceed to investigation as the revenue generated from ARFF services at Townsville airport amounted to \$1.5 million in 2006-07 and this is below the \$10 million revenue threshold for the application of competitive neutrality.





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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, Submissions and Staff Working Papers 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 2007-08, as well as briefings to international visitors.

### Commission research papers

#### **Financial performance of government trading enterprises, 2004-05 to 2005-06**

*July 2007*

The study formed part of the Commission's research into the performance of Australian industries and the progress of microeconomic reform. The performance of 85 government trading enterprises (GTEs) providing services in key sectors of the economy — including electricity, water, urban transport, railways, ports and forestry — were presented in the report. These GTEs controlled about 3.3 per cent of Australia's non-household assets (\$197 billion), and accounted for around 2 per cent of GDP in 2005-06.

Key points of the study were:

- Overall, the profitability of GTEs increased by 61 per cent in 2005-06 with improvements recorded in all sectors compared with the previous year. The largest improvements were in the electricity, railways and forestry sectors. However, profitability varied among GTEs:
  - profits declined for 37 per cent of GTEs
  - eleven GTEs (six in the water sector) failed to report a profit

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- for most sectors recording a profit improvement, much of this was derived from the performance of only one of the GTEs in that sector (between 39 and 65 per cent of increased profits).
  - Although the return on assets improved on average, about half of the monitored GTEs earned less than the long-term bond rate in 2005-06. This implies that an even greater proportion did not earn a commercial rate of return (which would include a margin for risk).
  - The poor financial performance of many GTEs underscores a longer-term failure to operate these businesses on a fully commercial basis in accordance with competition policy agreement undertakings.
  - In total, GTEs made dividend payments to owner-governments of almost \$5.6 billion in 2005-06 (\$3 billion excluding Telstra). In addition, tax and tax-equivalent payments totalled \$3.3 billion (\$1.9 billion excluding Telstra).
  - Asset valuation methods influence capital management through their effect on performance measurement, transparency and accountability. A survey of 58 GTEs revealed that 41 per cent used an historical cost method in 2005-06, even though the optimal deprival value method has been endorsed by governments as the preferred method for valuing GTE assets.
  - The economic rate of return (ERR) is a measure of capital management efficiency that has regard for the capital as well as the cash streams of income. The more widely used accounting rate of return (ARR) only captures cash streams of income. Estimates for 56 GTEs over the period 2000-01 to 2003-04 indicate that:
    - many GTEs did not achieve a return on assets exceeding the risk-free rate using either the ERR (42 per cent of GTEs) or the ARR (52 per cent of GTEs); and ERR estimates were higher than those of the ARR.

## **Towards urban water reform: a discussion paper**

*March 2008*

The discussion paper formed part of a suite of research papers developed under the Environment and Resource Management research theme. In considering current urban water management, the paper found that some of the issues are complex to resolve and the paper did not lay out a particular blueprint for reform. Nevertheless, the Commission found that the direction for reform seems clear. Key areas for more detailed assessment that it identifies include allowing a greater role for prices to signal water scarcity and to allocate resources; removing artificial impediments to

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rural urban water trading; and removing barriers to competition in the supply and retailing of urban water.

The key points of the paper were:

- There is no effective market for urban water. Governments (operating as planners, suppliers, distributors and retailers) make supply investments and manage available water with only limited knowledge about the value that users place on the resource.
- Charging regimes now recover operating costs and a return on assets but do not reflect the scarcity of water in times of shortage. Instead, demand is managed by overriding the preferences of urban consumers through restrictions on water uses.
  - The annual cost to households of restrictions would amount to billions of dollars.
- For the past two decades, and in contrast to earlier years, most governments avoided investments to augment supply. More recently, they have embarked on a range of projects including desalination, recycling and some links to rural supplies.
  - Efficient water supply decision-making needs to be based on cost–benefit frameworks that assess the relative merits of the various augmentation options in ways that better address climate-related uncertainty and which can adapt to improved understanding of future needs and supply options.
- Policies that restrict interaction between water used by rural and urban sectors limit opportunities for inter-sectoral trade. This distorts water use and infrastructure investment decisions.
- Monopoly provision of urban water impedes opportunities to develop alternative supply sources. Reform has been confined to governance arrangements rather than the structural changes necessary to achieve more efficient outcomes.
- A well-functioning urban water market could provide more timely investment signals, a wider range of innovative supply options, greater choice of products and options for water users and more efficient use of nationwide water resources. This is attainable without compromising equity, health, safety or environmental objectives.
  - Equity concerns can be addressed effectively by targeted policy instruments.
- The direction, if not the end point, for reform seems clear. The potential gains are sufficient to warrant a comprehensive public review to determine the extent to which a more market-oriented focus could be pursued and to alert the

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community to the tradeoffs. Key areas that warrant investigation include an assessment of the costs and benefits of:

- allowing a greater role for prices to signal water scarcity and to allocate resources
- removing the artificial impediments to rural-urban water trading
- removing barriers to competition in the supply and retailing of urban water.
- Transaction and adjustment costs need to be assessed in conjunction with how best to sequence incremental or co-ordinated reforms.
- Existing inter-jurisdictional arrangements such as the National Water Initiative could be modified to progress a more ambitious and coordinated reform agenda.

## Submissions

### **What role for policies to supplement an Emissions Trading Scheme? Productivity Commission submission to the Garnaut Climate Change Review**

*May 2008*

Responding to a request from the Garnaut Review, the Commission examined different categories of greenhouse policy and whether they would complement an Emissions Trading Scheme (ETS). It also considered the scope to lower the costs of emission reductions by widening the sectoral coverage of policy action, either within the ETS or by other means.

Key points included:

- Where activities are covered by an ETS, individuals and firms factor the traded price of greenhouse gas emissions into their decision-making and adjust their production and consumption in the most cost-effective way.
  - An effective ETS therefore is most likely to achieve a given abatement target at least cost to the community.
- With an effective ETS, much of the current patchwork of climate change policies will become redundant and there will only be a residual role for state, territory and local government initiatives.
- Once an ETS is in place, other abatement policies generally change the mix, not the quantity, of emissions reduction. Retaining existing, or introducing new,

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policies to supplement the ETS would need to offer other benefits. Those with potential include:

- addressing a lack of incentive to conduct research and development in low-emissions technologies
  - addressing barriers to the take-up of cost-effective energy efficiency opportunities
  - exploiting abatement potential in sectors and activities not covered by the ETS.
- Currently, the most significant climate change policy instrument is the Mandatory Renewable Energy Target (MRET) which is marked for significant expansion. However, with an effective ETS in place, the MRET would:
    - not achieve any additional abatement but impose additional administrative costs
    - most likely lead to higher electricity prices
    - provide a signal that lobbying for government support for certain technologies and industries over others could be successful.
  - The extent to which land use, agriculture and forestry will be included initially in the ETS is uncertain. While it appears feasible to include forestry and some elements of agriculture, it is unclear whether this is the best option.
    - Other policies in uncovered sectors could encourage additional abatement. A key example is credit for carbon sequestration (greenhouse gas offsets). But ensuring the effectiveness of such arrangements can be difficult and costly.
    - There is little benefit in Australia pursuing emission reductions that are not recognised under international rules. This has implications for linking with other countries' emissions trading schemes.
  - All supplementary policies must be subject to rigorous evidence-based analysis to determine if their rationales are sound and, if so, whether intervention would deliver a net community benefit after consideration of the costs of action.

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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.*

### **Precaution and the Precautionary Principle: Two Australian Case Studies**

*Annette Weier and Paul Loke, September 2007*

Many policy issues, particularly in environmental and natural resource management areas, are subject to significant uncertainties. In such circumstances, policymakers may adopt a cautious approach to decision making. Precautionary measures may be implemented to address potential, but uncertain, threats.

Applying precaution often raises questions about application of the Precautionary Principle. The Principle was conceived as a response to the inherent difficulties faced by decision makers confronted with uncertain potential outcomes. Its purpose is to remove uncertainty as an obstacle to addressing potential environmental and health hazards. However, much confusion surrounds the Principle and its role in decision making under uncertainty.

The paper examined two Australian case studies where precaution has been an important element in decision making — fisheries management and licensing of genetically modified organisms (GMOs). It considered three key issues:

- the basis for precautionary decision making
- how precaution has been applied in practice
- whether (and how) the Precautionary Principle contributed to precautionary decision making.

Key points from the paper were:

- Private activities, and government regulatory actions or inaction, can have impacts on the environment and on human health. Scientific uncertainty about such impacts compounds the problems that confront policymakers.
- In environmental and natural resource management areas subject to scientific uncertainty, policy development can be enhanced by clarifying precautionary decision making processes, and the role of the Precautionary Principle itself.
- There is widespread confusion about the meaning and influence of the many versions of the Precautionary Principle.

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- The most widely adopted versions, based on the United Nations’ ‘Rio definition’, seek to ensure that uncertainty about potentially serious hazards does not justify ignoring them.
  - More prescriptive versions can mandate precautionary action without recourse to an assessment of the costs and benefits.
  - Importantly, precautionary measures can be adopted without reference to the Precautionary Principle where, for instance, legislative objectives relating to ecological sustainability and human health apply.
  - The versions of the Principle adopted in Australia, which reflect the ‘Rio definition’, permit precautionary measures but do not specify the nature or the extent of precaution to be applied. Decision makers therefore apply precaution through risk management frameworks that take account of uncertainty.
  - Efficient and effective implementation of precaution requires decision makers to take account of the full range of relevant factors, including the magnitude, nature and severity of potential harm, as well as the economic, social, environmental, and health costs and benefits.
  - Two case studies — fisheries management and licensing of releases of genetically modified organisms — illustrate how precaution has been applied in Australia.
    - The different risk management frameworks adopted reflect variations in legislative objectives, knowledge bases, and types of hazards.
    - Confusion about the role of the Precautionary Principle may have contributed to public and industry dissatisfaction with some precautionary decisions.
    - Decision makers are improving the transparency and accountability of their processes.

## **A User’s Guide to the Modified Demographic and Economic Model (MoDEM),**

*Technical paper, September 2007*

A demographic model was created for the Commission’s 2005 report on the *Economic Implications of an Ageing Australia*. It was modified for the Commission’s 2007 report on the Potential Benefits of the National Reform Agenda.

The Modified Demographic and Economic Model (MoDEM) was used in this paper to calculate population, labour supply and GDP projections under different socioeconomic assumptions. Key results included population size, dependency

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ratios, aggregate participation rates, GDP and GDP per capita. Two sets of projections can be compared to evaluate the effects of a change in assumptions. Projections generated with the model are conditional, based on assumptions about demography and labour supply. They are not forecasts.

MoDEM consists of three Excel modules:

- demographic projection module
- labour projection module
- optional module to disaggregate the national projections to the state and territory level — the State and Territory Disaggregation Module (STDM).

The MoDEM installation program and User's Guide can be downloaded from the Commission's website.

### **The Stern Review: an assessment of its methodology**

*Rick Baker, Andrew Barker, Alan Johnston and Michael Kohlhaas, January 2008*

The Staff Working Paper was originally prepared as an internal research memorandum following release of the Stern Review's report. It was decided to make it more widely available given its ongoing relevance in light of the Garnaut Climate Change Review.

*The Stern Review: The Economics of Climate Change* was released in October 2006. Based on its analysis of costs, benefits and risks, the Review called for strong, early action on mitigation of greenhouse gas emissions. The Review established climate change as an economic issue that can be assessed through the 'lens' of a cost-benefit framework.

The staff paper examined the analytical approach adopted by the Stern Review. It found that the Stern Review made some important analytical advances. It sought to move beyond analysis based on the mean expected outcome, to one that incorporates low probability (but potentially catastrophic) events at the tail of probability distributions. The Review also attempted a more comprehensive coverage of damage costs than most previous studies.

The paper also found that value judgements and ethical perspectives in key parts of the Stern Review's analysis led to estimates of future economic damages being substantially higher, and abatement costs lower, than most previous studies. The paper noted that the Review could usefully have included more sensitivity analysis to highlight the consequences of alternative assumptions or judgements.



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## Distributional effects of changes in Australian infrastructure industries during the 1990s

*George Verikios and Xiao-guang Zhang, January 2008*

The key points of this paper were:

- During the 1990s, reforms and other developments improved productivity and reduced prices in Australian infrastructure services. These changes raised the average incomes of Australian households.
- Household incomes increased in every jurisdiction and in every decile of the income distribution.
- Changes in the electricity and telecommunications industries dominated distributional outcomes. The main sources of change were productivity improvements and lower real prices.
- There was a mix of direct price effects, indirect price effects and income effects:
  - Direct price effects: real prices paid by households for most infrastructure services declined. Low-income households gained proportionately more from such declines than high-income households.
  - Indirect price effects: decreasing infrastructure prices lowered costs for industry and, consequently, output prices fell. This reduced households' expenditure and the cost of Australia's exports. Output increased in some industries. This increased the demand for other inputs which, in turn, led to wage increases in some occupations and increased returns to capital. This led to costs and prices rising, and output falling, in some industries.
  - Income effects: wages increased most for occupations that are more heavily represented in high-income households. High income households also receive a large proportion of return to capital, which also increased. Low-income households that do not rely on wage incomes were not affected directly by the changes in wages.
- Government transfers were indexed to the consumer price index and average weekly earnings. Low-income households rely more on these transfers than other households. Indexing the transfers contributed to maintaining real incomes in low-income deciles.
- Overall, the effect on household income distribution was small, slightly favouring more affluent households, because increases in factor incomes (wages and returns to capital) dominated.

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## Migration, trade and investment

*Ben Dolman*, February 2008

Migrants affect many aspects of the community and economy in which they live. Some of the direct economic effects of migrants living within Australia were described in the Productivity Commission's (2006) report on the *Economic Impacts of Migration and Population Growth*. That report showed that migrants tend to raise Australian living standards — measured as GDP per capita — somewhat, because Australia's migrants are more highly skilled than the locally-born population on average and more concentrated in working age groups.

This paper focused on a less direct way in which migrants may affect living standards: by strengthening international social and business networks, thereby facilitating trade and investment flows.

The key points were:

- Migrants can help to build social and business networks that improve the quality of information flowing between countries and lower the costs of international trade and investment. This may particularly benefit Australia, which has a large and growing migrant population.
- The patterns of trade and investment across the OECD suggest that migrant networks are important. Countries tend to trade and invest more with countries from which they have received more migrants and, at least for trade, this relationship appears to be stronger where information barriers like distance and language would otherwise more greatly inhibit trade.
- This does not necessarily mean that countries with more migrants should be expected to trade and invest much more in total. This study finds that, by lowering the cost of trade between a pair of countries, migrants appear to reduce trade with other countries so that the overall effect on aggregate trade seems quite small. By contrast, there was no strong evidence that a reduction in investment with other countries accompanies the positive effect of migrants on bilateral investment.

## The Armington General Equilibrium Model: Properties, Implications and Alternatives

*Xiao-guang Zhang*, February 2008

Many of the large general equilibrium models used in trade and industry policy analysis adopt the Armington assumption of product differentiation by country of

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origin. This assumption provides a rationale for the existence of ‘cross-hauling’ data and offers a basis for modelling intra-industry trade.

This however results in a model whose properties and behaviour are fundamentally different from the well-known Heckscher-Ohlin (H-O) model, making some theorems derived from the H-O model difficult to use in policy analysis.

The aim of this research was to compare the Armington model with the traditional H-O model in a consistent framework and determine the implications of these differences for current modelling practices and for policy analysis with Armington models.

The paper argued that by combining both frameworks to incorporate inter-industry trade and intra-industry trade, a hybrid model can be constructed. The so-called ‘Armington-Heckscher-Ohlin’ (A-H-O) model inherits the strengths of both models, while reducing the problems associated with the two models. By introducing homogenous goods into the Armington model's framework (which is dominated by differentiated goods), the A-H-O model can capture more production gains from comparative advantage and, at the same time, maintain consumption gains from product differentiation. This structure helps moderate the overwhelming influence of household preferences for differentiated goods on the terms of trade found in the Armington model and, at the same time, avoids the indeterminacy or complete specialisation found in the H-O model.

This research forms part of the Commission’s research program dedicated to examining and clarifying the role of the Armington assumption commonly used in trade policy analysis. It follows publication in 2006 of the staff working paper, *The Armington Model*.

## **Part-time employment: the Australian experience**

*Joanna Abhayaratna, Les Andrews, Hudan Nuch and Troy Podbury, June 2008*

This paper provided an overview of the changing role of part-time work in Australia over the past few decades.

The paper compared the prevalence and growth of part time work in Australia and overseas. The changing role that part time work has played in the Australian labour market was examined. The paper identified those groups that are more likely to work part-time, what industries they work in, and their characteristics and attitudes to work.

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The key points of the report were:

- Part-time work has become an important form of employment growing from 10 per cent of total employment in 1966 to 29 per cent in 2007. The prevalence of part-time work has increased for both men and women and for all age groups.
- Both supply-side and demand-side factors have driven the growth in part-time employment.
  - A key supply side factor includes the entry into the workforce of people combining employment and other activities such as education and raising a family.
  - An important demand side factor is employers using part-time employment to increase operational flexibility.
- The high level of casual work among part-time workers means that they have less access to many conditions of full time employment.
- The part-time workforce is a diverse group in terms of their characteristics and attitudes to work. The household circumstances of part-time workers vary, as does the contribution of their labour income to the household budget — from being the only source of labour income to a negligible source.
- Part-time workers are not a static group. There is considerable movement into and out of part-time work both as labour market conditions change and as workers move through their life cycle and their work/life priorities change.
- At the aggregate level there appears little compelling evidence for a dual labour market between part-time and full-time work. Nonetheless, many workers find it difficult to change the number of hours that they work, suggesting that there may be some obstacles to mobility even in the current strong labour market.
- Since the early 1990s, 20–25 per cent of female part-time workers and 30–35 per cent of male part-time workers have indicated a preference to work more hours. At the same time, there is evidence to suggest that two full-time workers want to move to part-time work for every part-time worker who wants to move to full-time work.
  - It is not clear what the impact on aggregate hours worked would be from any changes to working arrangements which allow a better matching of desired and actual working hours. That said, the wellbeing of workers would be improved.

**Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2007-08**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks, Chairman:</b>		
Lowy Institute and Tasman Transparency Group Conference, Sydney	Domestic Transparency in Australia: the role of 'the Commission'	July 2007
ANZSOG Research Workshop, Canberra	Research and Public Policy	July 2007
CEDA Trustees Luncheon, Melbourne	Reducing the Redtape Burden: How are we going?	July 2007
Clubs NSW Australian Gaming Expo Conference Program, Sydney	Gambling in Australia: are we balancing the equation?	Aug 2007
China Australia Governance Program, International workshop on Public Inquiries and Economic System, Beijing, China	Public inquiries in policy formulation: Australia's Productivity Commission	Sept 2007
ASIC, APRA, FICA and the Melbourne Centre for Financial Studies Financial Regulation Conference, Melbourne	Program on regulatory reform	Sept 2007
Environment Protection and Heritage Council Standing Committee Meeting, Melbourne (with Neil Bryon and Bernard Wonder)	Productivity Commission issue and regulatory reform	Sept 2007
COAG Reform Council, Melbourne (with Bernard Wonder and Paul Gretton),	National Reform Agenda	Oct 2007
WA Chamber of Commerce and Industry, Perth	Reform progress and outlook	Nov 2007
Office of Best Practice Regulation Cost Benefit Analysis Conference, Canberra	Setting the scene	Nov 2007
Melbourne Institute of Applied Economics and Social Research Housing Affordability Public Forum, Canberra	Introduction	Nov 2007
Melbourne Business School Elective Subject — Leading Policy Reform in Australia, Melbourne	Industry policy evolution in Australia	Jan 2007
Melbourne Business School Elective Subject — Leading Policy Reform in Australia, Melbourne	Reducing regulatory burdens on business	Jan 2007
CEDA Trustees Luncheon, Melbourne	The microeconomic reform agenda	March 2008

(continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
The Melbourne Institute and the Australian Research Development 2008 Economic and Social Outlook Conference, Melbourne	Riding the Third Wave: some challenges in national reform	March 2008
Medicines Australia AusPharma 08 — Charting the Future, Canberra	Industry policy settings and the pharmaceutical industry	April 2008
2020 Summit, Infrastructure Stream	Issues in Infrastructure: An introduction	April 2008
Development Research Centre of the State Council of the Republic of China and EABER Roundtable, Beijing, China	Structural Reform — comparative experience	April 2008
2 <sup>nd</sup> Annual NZ Regulatory Evolution Summit, Wellington, New Zealand	Evolution of regulatory reform in Australia	May 2008
APEC Deputies Meeting, Brisbane	Institutions and structural reform	June 2008
ANZ International Conference of Commercial Bank Economists Luncheon, Melbourne	The role of the Productivity Commission in Australia's reform story	June 2008
Menzies Health Policy Oration, Canberra	Health costs and policy in an ageing Australia	June 2008
<b>Commissioners:</b>		
Human Rights and Equal Opportunity Commission HREOC Social Justice Launch, Sydney (Robert Fitzgerald)	Release of directions of the Overcoming Indigenous Disadvantage report	July 2007
Ministerial Council for Aboriginal and Torres Straight Islander Affairs, Adelaide (Robert Fitzgerald)	Overcoming Indigenous Disadvantage report	Aug 2007
Development Research Centre of State Council and the National Development and Reform Commission Workshop, Beijing, China (Mike Woods)	Australia's Public Inquiry experience and economic system report	Sept 2007
Ministry of Finance workshop on the role of quantitative analysis in policy development, Beijing, China (Mike Woods & Paul Gretton)	Modelling the Distributional Effects of Economic Reform	Sept 2007
State Information centre seminar, Beijing, China (Mike Woods & Paul Gretton)	National Economic Reform: role of competition policy	Sept 2007

ACCORD Australasian National Conference, Gold Coast (Mike Woods)	Chemicals and Plastics Regulation	Oct 2007
Chairs of NSW Catchment Management Authorities, CSIRO Sustainable Ecosystems, and BDI Ltd, Sydney (Neil Byron)	An assessment framework for the application of MBIs to Catchment Management	Nov 2007
Two Ways Together and NSW Department of Aboriginal Affairs Luncheon Seminar, Sydney (Robert Fitzgerald)	Overcoming Indigenous Disadvantage report	Nov 2007
Centre for Military and Veteran's Health — Future issues in military and Veteran's Health Service Delivery, Brisbane (Robert Fitzgerald)	The Productivity Commission's report on Australia's Health Workforce	Nov 2007
Centre for Credit and Consumer Law Roundtable, Brisbane (Robert Fitzgerald)	Consumer Policy Review	Dec 2007
ABARE Outlook 2008 Conference, Canberra (Mike Woods)	R&D and Innovation in Agriculture	March 2008
The Treasury, National Consumer Congress 2008, Perth (Robert Fitzgerald)	Current and future issues for Consumer Policy — Productivity Commission Inquiry into the Australian Consumer Policy Framework	March 2008
Australia Council for International Development 10 <sup>th</sup> Anniversary Forum, Canberra (Robert Fitzgerald)	Non-profit agencies	March 2008
Informa — addressing the Healthcare Skills Crisis, Sydney (Mike Woods)	Australian Health Workforce Arrangements	March 2008
CropLife Australia — Crop Protection Members Forum, Sydney (Mike Woods)	The Life and Times of the Productivity Commission	March 2008
Fire Protection Association Australia — Hazmat 2008, Canberra (Mike Woods)	Review of Chemicals and Plastics draft report	May 2008
Global Access Partners Water Forum, Melbourne (Neil Byron)	Urban water pricing	June 2008
2008 meeting of the National Women's Secretariats, Broken Hill (Robert Fitzgerald)	The Productivity Commission's Paid Maternity, Paternity and Parental Leave inquiry	June 2008
PACIA National Conference , Melbourne (Siobhan McKenna)	Future Regulations: the Productivity Commission study on Chemicals and Plastics	June 2008
AWA Urban Water Reform Forum, Brisbane (Neil Byron)	Governance and Structures in a Challenging Climate	June 2008
Department of Climate Change, Environment, Water, Heritage and the Arts, Canberra (Neil Byron, Alan Johnston & Rick Baker)	Greenhouse frontiers: What role for policies to supplement and Emissions Trading Scheme?	June 2008

(continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Staff:</b>		
Treasury Academic Consultative Panel Workshop, Canberra (Dean Parham)	Analysis of the links between infrastructure and productivity	Aug 2007
Seminar to Commonwealth Treasury, Canberra (Patrick Laplagne)	Effects of health and education on labour force participation	Aug 2007
University of Adelaide Luncheon Seminar, Adelaide (Dean Parham)	Australia's productivity performance in the 21 <sup>st</sup> century	Aug 2007
MaryMead and ARACY 'What works for children: bridging the gaps' early childhood Conference, Canberra (Catherine Andersson)	Collaboration in the Review of Government Service Provision: Measuring whole of government performance in Australia	Aug 2007
Department of the Senate, training program for delegates of the National Assembly of Vietnam and Provincial Peoples Councils, Sydney (Chris Sayers & Julia Thomson)	The role of the Productivity Commission; microeconomic reform in Australia: monitoring financial performance and governance of GTEs – the Productivity Commission's research and findings	Aug 2007
National Development Reform Commission of China and the OECD Seminar on Regulatory Policy, Market Openness and Competition Policy, Beijing, China (Patrick Jomini)	Market openness and regulatory reform: understanding the links to enhanced economic performance	Sept 2007
Australian Human Resources Summit 2007, Sydney (Patrick Laplagne)	Securing Australia's stock of human capital for the next 25 years	Sept 2007
Onemda VicHealth Koori Health Unit Critical Debates in Aboriginal Health, Melbourne (Lawrence McDonald)	Aspects of the work on the Overcoming Indigenous Disadvantage report	Sept 2007
Australian Conference of Economists, Hobart (Andrew Barker)	The Stern Review and other economic analyses of climate change: a sensitivity analysis	Sept 2007
Annual Economic Framework Conference, Melbourne (Lisa Gropp)	Maximising the benefits of private provision of infrastructure	Sept 2007
The Economics of Heritage National Workshop on Integrating the Costs and Benefits of Heritage into Government Decision Making, Canberra (Scott Austin)	Findings of the Productivity Commission's Conservation of Australia's Historic Heritage Places inquiry	Oct 2007
The Economics of Heritage National Workshop on Integrating the Costs and Benefits of Heritage into Government Decision Making, Canberra (Rod Bogaards)	Cost Benefit Analysis and Heritage Regulation	Oct 2007



Australian Public Service Commission's SES Orientation Program, Canberra, (Bernard Wonder)	Public Accountability	Oct 2007
University of Sydney Contemporary Issues Lecture, Sydney (Rosalyn Bell & Ineke Redmond)	Water use in Australian agriculture and farm performance	Oct 2007
The Australia and New Zealand School of Government Seminar, Melbourne (Ralph Lattimore)	Economic regulation	Oct 2007
University of Western Australian and Australian National University Annual PhD Conference in Economics and Business, Perth (Jonathan Pincus)	Comment on 'Trade Agreements under Political Pressures'	Nov 2007
Department of Foreign Affairs and Trade Graduate Trade Policy Course, Canberra (Tom Nankivell)	The economics of trade liberalisation	Nov 2007
Department of Foreign Affairs and Trade Graduate Trade Policy Course, Canberra (Tom Nankivell)	The economics of trade liberalisation; trade and environment; and trade and labour standards	Nov 2007
Australia New Zealand Population Workshop, Sydney (Graeme Cuxson)	Updateable, flexible, easy to use — MoDEM 2.0	Nov 2007
Policy Futures in Urban Water Roundtable, Canberra (Alan Johnston)	Urban water demand management and supply issues	Nov 2007
Cost Benefit Analysis Conference, Canberra (Mark Harrison)	Valuing the future: choosing the discount rate in cost-benefit analysis	Nov 2007
Cost Benefit Analysis Conference, Canberra (Jonathan Pincus)	Summing up the issues	Nov 2007
Setting Priorities for Services Trade Reform, Canberra (Owen Gabbitas)	Assessing productivity in the delivery of health services in Australia: some experimental estimates	Nov 2007
Economic Measurement Group Workshop, Sydney (Dean Parham)	R&D, Intangibles and Productivity	Dec 2007
Australian Bureau of Statistics and the Productivity Commission Productivity Perspectives 2007 Conference, Canberra (Owen Gabbitas)	Assessing productivity in the delivery of health services in Australia: some experimental estimates	Dec 2007
ACCC Seminar, Melbourne (Mark Harrison)	Valuing the Future: choosing the discount rate in cost-benefit analysis	Jan 2008
National Indigenous Health Equity Summit, Canberra (Peter Daniel)	Overcoming Indigenous Disadvantage Framework	March 2008

(continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
APEC Workshop on Government Performance and Results Management, Taipei, Taiwan (Michael Kirby)	Public sector performance monitoring, governance and Australia's Productivity Commission	March 2008
2008 Economic and Social Outlook Conference, Melbourne (Alan Johnston)	Environmental Constraints	March 2008
Micro-economic Foundations of Economic Policy Performance in Asia Conference, New Delhi, India (Paul Gretton)	Assessing the importance of national economic reform — Australian Productivity Commission experience	April 2008
Treasury 2020 Summit Roundtable, Canberra (Ralph Lattimore)	Implications of Ageing	April 2008
CEDA 2008 Public Health Policy Seminar, Melbourne (Lisa Gropp)	Medical Technology: contribution and cost	April 2008
2 <sup>nd</sup> Annual Australian Workplace Relations Summit, Sydney (Anthony Shomas)	Workforce participation overview and implications	May 2008
The Australia and New Zealand School of Government Seminar, Sydney (Ralph Lattimore)	Economic regulation	May 2008
La France en Europe: Un Acteur pas comme les autres? Paris, France (Ian Gibbs)	Priorities for reform in the EU	June 2008
Eleventh Annual GTAP Conference, Helsinki, Finland (Patrick Jomini)	Future of Global Economy	June 2008
European Commission, Brussels, Belgium (Ian Gibbs)	Productivity Commission's report on Australia's consumer policy framework	June 2008

**Table E.2 International delegations and visitors, 2007-08**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Delegation from Indonesia's Ministry of Finance	The Commission's role and functions	July 07 (C)
USA Economic and Trade Media Visitors	Economic and trade policy issues	July 07 (C)
OECD Structural visit	Structural economic issues in support of OECD 2008 Economic Survey of Australia	July 07 (C)
Delegation from China	Modelling the Distribution Effects of Economic Reform	July 07 (C)
Canadian Competition Bureau	The Commission's role and functions and promotion of public understanding of matters related to industry and productivity	Aug 07 (M)
Vietnamese Delegation	Monitoring financial performance and governance of government trading enterprises	Aug 07 (Sydney)
Malaysian Ministry of Health Delegation	Australian Health Sector Workforce Reforms	Aug (C)
South African Delegation	International best practice in the policy-making arena and stakeholder management process	Sept 07 (C)
Canadian Council of Chief Executives	Issues relating to competitiveness	Sept 07 (C)
Delegation from China's National Development and Reform Commission	To inform and provide a reference point for ongoing taxation and fiscal reform in China	Sept 07 (C)
Chinese Delegation Workshop	The Commission's role, function and activities; relationship with the Australian Government and roles in the economic reform and policy formations	Sept 07 (M)
Delegation from Thailand's Fiscal Policy Research Institute	Adjustment programs implemented in Australia and effectiveness rates of assistance	Oct 07 (M)
Australia-Japan Chamber of Commerce & Industry	The Commission's role, function and activities	Nov 07 (C)
Vietnamese Ministerial Delegation	The Commission's role and functions	Nov 07 (C)
Officials from the Finance Ministries and Planning Agencies of Indonesia and China	The Commission's role, function and activities	Nov 07 (C)
UK Competition Council	The Commission's competition issues (for example, Airports)	Dec 07 (C)

(continued next page)

Table E.2 (continued)

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Delegation from China's Democratic Republic	The Commission's role, function and activities and the inquiry into First Home Ownership	Dec 07 (M)
Delegation from Germany's Federal Ministry of Food, Agriculture and Consumer Protection	The Commission's role, function and activities and economic reform	Feb 08 (C)
NZ Ministry of Economic Development	Trans-Tasman cooperation	Feb 08 (M)
Assoc. Prof. William Morrison (Wilfrid Laurier University, Canada)	Airport Governance	Feb 08 (C)
South African Delegation	The Commission's role, function and activities	Feb 08 (C)
China's National Development Reform Commission	Workshop on National Development Reform Commission's proposal to reform revenue rights and expenditure responsibilities amongst the five levels of government in China	Mar 08 (M)
China's National Development Reform Commission	National Development Reform Commission policy proposals drawing on Australian experience	April 08 (C)
Korean Small Business Council	The Commission's role, function and activities and the Trade Assistance Review report process and outcome	April 08 (C)
NZ Ministry for the Environment	Water and Water rights	May 08 (C)
Maori Affairs Committee of the New Zealand House of Representatives	Overcoming Indigenous Disadvantage	May 08 (C)
UK Civil Aviation Authority Economic Regulation Group	Airport Regulation	May 08 (C)
OECD Policy Mission	Issues of productivity trends and structural reform	June 08 (C)
IMF Article IV Mission	Competition, regulation reform and human capital reforms	June 08 (C)

(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 2007-08. It also lists conference proceedings, staff working papers and other papers, 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 reports

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

- *Annual Review of Regulatory Burdens on Business: Primary Sector*, Draft Research Report, 12 September 2007
- *Review of Australia's Consumer Policy Framework*, Draft Report, 12 December 2007
- *The Market for Retail Tenancy Leases in Australia*, Draft Report, 13 December 2007
- *Assessing Local Government Revenue Raising Capacity*, Draft Research Report, 18 December 2007
- *Chemicals and Plastics Regulation*, Draft Research Report, 19 March 2008
- *Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades*, Draft Research Report, 27 June 2008

#### 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

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Commission's website. The dates listed are signing dates. Publications marked with an asterisk (\*) are yet to be released.

- *Annual Review of Regulatory Burdens on Business: Primary Sector*, Research Report, 5 November 2007
- *Safeguards Inquiry into the Import Pigmeat*, Accelerated Report, Report No. 42, 14 December 2007
- *The Market for Retail Tenancy Leases in Australia*, Inquiry Report No. 43, 31 March 2008
- *Safeguards Inquiry into the Import Pigmeat*, Inquiry Report, Report No. 44, 31 March 2008
- *Assessing Local Government Revenue Raising Capacity*, Research Report, 4 April 2008
- *Review of Australia's Consumer Policy Framework*, Inquiry Report, Report No. 45, 30 April 2008
- *Modelling Economy-wide Effects of Future Automotive Assistance*, Research Report, 30 May 2008
- *Modelling Economy-wide Effects of Future TCF Assistance*, Research Report, 30 June 2008

## 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 2007-08 and many Secretariat reports from previous years are also available on compact disk.

- *Feedback on the Report on Government Services 2007* (September 2007)
- *Report on Government Services 2008*, Volume 1: Early Childhood, Education and Training, Justices, Emergency Management (January 2008)
- *Report on Government Services 2008*, Volume 2: Health, Community Services, Housing (January 2008)
- *Report on Government Services 2008: Indigenous Compendium* (April 2008)

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## Competitive neutrality complaints

One competitive neutrality complaint report was published in 2007-08:

- *Defence Housing Australia*, AGCNCO Investigation No. 13 (April 2008)

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

- *Best Practice Regulation Report 2006-07* (December 2007)
- *Annual Report 2006-07* (February 2008)
- *Trade & Assistance Review 2006-07* (April 2008)

### Commission research papers

- *Financial Performance of Government Trading Enterprises 2004-05 to 2005-06* (July 2007)
- *Towards Urban Water Reform: A Discussion Paper* (March 2008)

### Submissions

- *What Role for Policies to Supplement an Emissions Trading Scheme? Productivity Commission Submission to the Garnaut Climate Change Review* (May 2008)

### Chairman's speeches

Copies of the following speeches by Gary Banks are available from the Commission's website.

- 
- *Domestic Transparency in Australia's Economic and Trade Reforms: The Role of the Commission* (August 2007)
  - *Gambling in Australia: Are We Balancing the Equation?* (August 2007)
  - *Public Inquiries in Policy Formulation: Australia's Productivity Commission* (September 2007)
  - *Riding the Third Wave: Some Challenges in National Reform* (March 2008)
  - *Health Costs and Policy in an Ageing Australia* (June 2008)

### **Richard Snape Lecture**

The fifth Richard Snape Lecture was held on 30 October 2007. The lecture is available on the Commission's website or Video Stream.

- *Economic and Regulatory Reforms in Europe: Past Experiences and Future Challenges*, Professor Patrick Messerlin (October 2007)

### **Conference/workshop proceedings**

Papers contained within these proceedings reflect the views of the authors and not necessarily those of the Commission. Copies of the proceedings are available from the Commission's publications agent Pirion/JS McMillan, and from the Commission's website.

- *Productivity Perspectives 2007* (December 2007)
- *Behavioural Economics and Public Policy*, Roundtable Proceedings (May 2008)

### **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.

- *Precaution and the Precautionary Principle: Two Australian Case Studies* (September 2007)
- *A User's Guide to the Modified Demographic and Economic Model (MoDEM)*, Technical paper (September 2007)
- *The Stern Review: An Assessment of its Methodology* (January 2008)
- *Distributional Effects of Changes in Australian Infrastructure Industries during the 1990s* (January 2008)



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- *Migration, Trade and Investment* (February 2008)
  - *The Armington General Equilibrium Model: Properties, Implications and Alternatives* (February 2008)
  - *Part-Time Employment: the Australian Experience* (June 2008)

### **Conference papers**

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

- *Assessing productivity in the delivery of health services in Australia: some experimental estimates* (December 2007)
- *Assessing the importance of national economic reform — Australian Productivity Commission experience* (April 2008)

### **Other publications**

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

- *Best Practice Regulation Handbook* (September 2007)
- *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 37, July 2007, Issue 38, September/October 2007; Issue 39, February 2008 (including Publications in 2007 insert); Issue 40, April 2008)



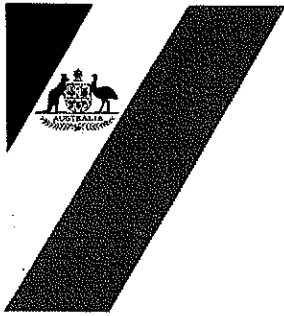
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# G Financial statements

**This appendix presents the audited financial statements for the Productivity Commission for 2007-08.**

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## INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

### Scope

I have audited the accompanying financial statements of the Productivity Commission for the year ended 30 June 2008, which comprise: a statement by the Chairman and Chief Finance Officer; income statement; balance sheet; statement of changes in equity; cash flow statement; schedule of commitments; summary of significant accounting policies; and other explanatory notes.

### *The Responsibility of the Chairman for the Financial Statements*

The Chairman is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chairman of the Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Independence***

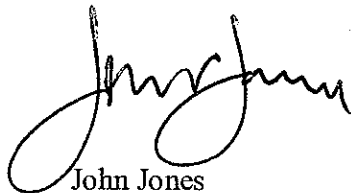
In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

### **Auditor's 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 the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Productivity Commission's financial position as at 30 June 2008 and its financial performance and its cash flows for the year then ended.

Australian National Audit Office



John Jones  
Executive Director

Delegate of the Auditor General

Canberra  
25 August 2008



GPO Box 1428  
Canberra City ACT 2601  
Telephone 02 6240 3202  
Facsimile 02 6240 3300  
[www.pc.gov.au](http://www.pc.gov.au)

*From the Chairman's Office*

## **Statement by the Chairman and Chief Finance Officer**

In our opinion, the attached financial statements for the year ended 30 June 2008 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

A handwritten signature in black ink, appearing to read 'G Banks'.

Gary Banks AO  
Chairman

22 August 2008

A handwritten signature in black ink, appearing to read 'Brian Scammell'.

Brian Scammell  
Chief Finance Officer

22 August 2008

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## Income Statement

for the period ended 30 June 2008

		<b>2008</b>	2007
	Notes	<b>\$'000</b>	\$'000
<b>Income</b>			
<b>Revenue</b>			
Revenue from Government	3A	<b>32,389</b>	32,251
Sale of goods and rendering of services	3B	<u>226</u>	<u>33</u>
<b>Total revenue</b>		<b><u>32,615</u></b>	<b><u>32,284</u></b>
<b>Gains</b>			
Sale of assets	3C	-	8
Other gains	3D	<u>33</u>	<u>168</u>
<b>Total gains</b>		<b><u>33</u></b>	<b><u>176</u></b>
<b>Total Income</b>		<b><u>32,648</u></b>	<b><u>32,460</u></b>
<b>Expenses</b>			
Employee benefits	4A	<b>22,984</b>	22,311
Suppliers	4B	<b>8,244</b>	6,177
Depreciation and amortisation	4C	<b>1,052</b>	585
Finance costs	4D	<b>34</b>	32
Write-down and impairment of assets	4E	-	8
Losses from sale of assets	4F	<u>127</u>	<u>-</u>
<b>Total Expenses</b>		<b><u>32,441</u></b>	<b><u>29,113</u></b>
<b>Surplus</b>		<b><u>207</u></b>	<b><u>3,347</u></b>

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

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## Balance Sheet

as at 30 June 2008

		2008	2007
	Notes	\$'000	\$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	5A	288	225
Trade and other receivables	5B	<u>9,188</u>	<u>11,930</u>
<b>Total financial assets</b>		<u><b>9,476</b></u>	<u><b>12,155</b></u>
<b>Non-Financial Assets</b>			
Land and buildings	6A	4,407	1,286
Infrastructure, plant and equipment	6B	1,260	1,125
Intangibles	6C	61	22
Other non-financial assets	6E	<u>475</u>	<u>310</u>
<b>Total non-financial assets</b>		<u><b>6,203</b></u>	<u><b>2,743</b></u>
<b>Total Assets</b>		<u><b>15,679</b></u>	<u><b>14,898</b></u>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	7A	<u>623</u>	<u>434</u>
<b>Total payables</b>		<u><b>623</b></u>	<u><b>434</b></u>
<b>Provisions</b>			
Employee provisions	8A	7,512	7,495
Other provisions	8B	<u>479</u>	<u>573</u>
<b>Total provisions</b>		<u><b>7,991</b></u>	<u><b>8,068</b></u>
<b>Total Liabilities</b>		<u><b>8,614</b></u>	<u><b>8,502</b></u>
<b>Net Assets</b>		<u><b>7,065</b></u>	<u><b>6,396</b></u>
<b>EQUITY</b>			
Contributed equity		2,858	2,396
Reserves		1,725	1,725
Retained earnings		<u>2,482</u>	<u>2,275</u>
<b>Total Equity</b>		<u><b>7,065</b></u>	<u><b>6,396</b></u>
<b>Current Assets</b>		<b>9,951</b>	12,465
<b>Non-Current Assets</b>		<b>5,728</b>	2,433
<b>Current Liabilities</b>		<b>7,646</b>	7,487
<b>Non-Current Liabilities</b>		<b>968</b>	1,015

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



## Statement of Changes in Equity

as at 30 June 2008

Item	Retained earnings		Asset revaluation reserve		Contributed equity		Total equity	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening Balance</b>								
Balance carried forward from previous period	2,275	(1,072)	1,725	1,172	2,396	1,711	6,396	1,811
Adjustment for changes in accounting policies	-	-	-	-	-	-	-	-
<b>Adjusted Opening Balance</b>	<b>2,275</b>	<b>(1,072)</b>	<b>1,725</b>	<b>1,172</b>	<b>2,396</b>	<b>1,711</b>	<b>6,396</b>	<b>1,811</b>
<b>Income and Expense</b>								
Revaluations recognised Directly in Equity (Plant & Equipment)	-	-	-	99	-	-	-	99
Revaluations recognised Directly in Equity (Leasehold Improvements)	-	-	-	454	-	-	-	454
<b>Sub-total income and expenses recognised Directly in Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>553</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>553</b>
Surplus (Deficit) for the period	207	3,347	-	-	-	-	207	3,347
<b>Total Income and Expense</b>	<b>207</b>	<b>3,347</b>	<b>-</b>	<b>553</b>	<b>-</b>	<b>-</b>	<b>207</b>	<b>3,900</b>
<b>Transactions with owners</b>								
<i>Contributions by Owners</i>								
Appropriation (equity injection)	-	-	-	-	462	685	462	685
<b>Sub-total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>462</b>	<b>685</b>	<b>462</b>	<b>685</b>
<b>Closing Balance at 30 June</b>	<b>2,482</b>	<b>2,275</b>	<b>1,725</b>	<b>1,725</b>	<b>2,858</b>	<b>2,396</b>	<b>7,065</b>	<b>6,396</b>

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

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## Cash Flow Statement

for the year ended 30 June 2008

		<b>2008</b>	<b>2007</b>
	Notes	<b>\$'000</b>	<b>\$'000</b>
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		1,453	144
Appropriations		33,675	28,580
Net GST received from ATO		<u>1,249</u>	<u>735</u>
<b>Total cash received</b>		<b><u>36,377</u></b>	<b><u>29,459</u></b>
<b>Cash used</b>			
Employees		23,069	22,364
Suppliers		<u>9,918</u>	<u>6,375</u>
<b>Total cash used</b>		<b><u>32,987</u></b>	<b><u>28,739</u></b>
<b>Net cash from (used by) operating activities</b>	10	<b><u>3,390</u></b>	<b><u>720</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of property, plant and equipment		<u>16</u>	<u>8</u>
<b>Total cash received</b>		<b><u>16</u></b>	<b><u>8</u></b>
<b>Cash Used</b>			
Purchase of plant and equipment		<u>4,490</u>	<u>700</u>
<b>Total cash used</b>		<b><u>4,490</u></b>	<b><u>700</u></b>
<b>Net cash from (used by) investing activities</b>		<b><u>(4,474)</u></b>	<b><u>(692)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations – contributed equity		<u>1,147</u>	<u>25</u>
<b>Total cash received</b>		<b><u>1,147</u></b>	<b><u>25</u></b>
<b>Cash Used</b>			
Other cash used		<u>-</u>	<u>-</u>
<b>Total cash used</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>Net cash from (used by) financing activities</b>		<b><u>1,147</u></b>	<b><u>25</u></b>
<b>Net increase (decrease) in cash held</b>		<b>63</b>	<b>53</b>
Cash and cash equivalents at the beginning of the reporting period		<u>225</u>	<u>172</u>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b><u>288</u></b>	<b><u>225</u></b>

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

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## Schedule of Commitments

as at 30 June 2008

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	<i>2008</i>	<i>2007</i>
	<b>\$'000</b>	<b>\$'000</b>
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
GST recoverable on commitments	<u>(1,885)</u>	<u>(696)</u>
<b>Total commitments receivable</b>	<u>(1,885)</u>	<u>(696)</u>
<b>Other commitments</b>		
Operating leases	<b>19,239</b>	6,812
Other commitments	<u>1,499</u>	<u>848</u>
<b>Total other commitments</b>	<u>20,738</u>	<u>7,660</u>
<b>Net commitments by type</b>	<u>18,853</u>	<u>6,964</u>
<b>BY MATURITY</b>		
<b>GST recoverable on commitments</b>		
One year or less	<b>(293)</b>	(269)
From one to five years	<b>(866)</b>	(427)
Over five years	<u>(726)</u>	<u>–</u>
<b>Total commitments receivable</b>	<u>(1,885)</u>	<u>(696)</u>
<b>Operating lease commitments</b>		
One year or less	<b>2,689</b>	2,376
From one to five years	<b>9,099</b>	4,436
Over five years	<u>7,451</u>	<u>–</u>
<b>Total operating lease commitments</b>	<u>19,239</u>	<u>6,812</u>
<b>Other commitments</b>		
One year or less	<b>538</b>	588
From one to five years	<b>427</b>	260
Over five years	<u>534</u>	<u>–</u>
<b>Total other commitments</b>	<u>1,499</u>	<u>848</u>
<b>Net commitments by maturity</b>	<u>18,853</u>	<u>6,964</u>

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NB: Commitments are GST inclusive where relevant.

Other commitments are primarily contracts for office services.

Operating leases included are effectively non-cancellable and comprise:

***Leases for office accommodation***

Lease payments are subject to fixed annual increase in accordance with the lease agreement. In Melbourne, the current lease expiry is 30 June 2011. In Canberra the current lease commenced on 1 August 2007 and expires on 30 April 2017, with a five year option.

***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.

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

## Notes to and forming part of the Financial Statements

<b>Note</b>	<b>Description</b>
1	Summary of Significant Accounting Policies
2	Events after the Balance Sheet Date
3	Income
4	Expenses
5	Financial Assets
6	Non-Financial Assets
7	Payables
8	Provisions
9	Restructuring
10	Cash Flow Reconciliation
11	Contingent Liabilities and Assets
12	Executive Remuneration
13	Remuneration of Auditors
14	Average Staffing Levels
15	Financial Instruments
16	Appropriations
17	Special Accounts
18	Compensation and Debt Relief
19	Reporting of Outcomes

## **Note 1: Summary of Significant Accounting Policies**

### **1.1 Objectives of the Productivity Commission**

The Productivity Commission (the Commission) is an Australian Public Service organisation. The Commission is the Australian Government's principal review and advisory body on microeconomic policy and regulation.

The Commission is structured to meet a single outcome:

*Outcome 1: 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 single outcome consists of 4 outputs:

- Output 1 – Government commissioned projects;
- Output 2 – Performance reporting and other services to government bodies;
- Output 3 – Competitive neutrality complaints activities; and
- Output 4 – Supporting research and activities and annual reporting.

Activities contributing toward these outcomes are classified as departmental. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Commission in its own right.

The Commission's outputs have been revised to reflect the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation as part of the revised administrative arrangements implemented following the 2007 Federal Election. Commissioned projects of an inquiry and research nature relating to regulatory issues are included in Output 1 — Government commissioned projects.

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.

### **1.2 Basis of Preparation of the Financial Report**

The Financial Statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are a General Purpose Financial Report.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2007; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with historical cost convention, except for certain assets 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 otherwise specified.

Unless alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Entity or a future sacrifice of economic benefits will be required 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 unrealised are reported in the Schedule of Commitments.

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, consumption or loss of economic benefits has occurred and can be reliably measured.

### **1.3 Significant Accounting Judgements and Estimates**

In the process of applying the accounting policies listed in this note, the Commission has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements has been taken to be the fair value of similar leasehold improvements as determined by an independent valuer.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

## 1.4 Statement of Compliance

### Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

The following new standards are applicable to the current reporting period.

### Financial instrument disclosure

AASB 7 *Financial Instruments: Disclosures* is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that previously required. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]. These changes have no financial impact but will effect the disclosure presented in future financial reports.

The following new standards, amendments to standards or interpretations for the current financial year have no material financial impact on the Commission.

*2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and Erratum: Proportionate Consolidation*

*2007-7 Amendments to Australian Accounting Standards*

*2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*

*UIG Interpretation 11 AASB 2 – Group and Treasury Share Transactions and 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11*

### Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

*AASB Interpretation 12 Service Concession Arrangements and 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12*

*AASB 1004 Contributions*

*AASB 8 Operating Segments and 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

*2007-6 Amendments to Australian Accounting Standards arising from AASB 123*

*AASB Interpretation 13 Customer Loyalty Programmes*

*AASB Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

### Other

The following standards and interpretations have been issued but are not applicable to the operations of the Commission.

*AASB 1049 Whole of Government and General Government Sector Financial Reporting*

AASB 1049 specifies the reporting requirements for the General Government Sector, and therefore, has no effect on the Commission's financial statements.



## 1.5 Revenue

### Revenue from Government

Amounts appropriated for departmental output appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue when the agency gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

### Other Types of Revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;
- The revenue and transactions costs incurred can be reliably measured; and
- It is probable that the economic benefits associated with the transaction will flow to the Entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- The amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- The probable economic benefits associated with the transaction will flow to the Entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

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.

## **1.6 Gains**

### Other Resources Received Free of Charge

Resources 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.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government Agency or Authority as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7 and 9).

Resources received free of charge are recorded as either revenue or gains depending on their nature.

### Sale of Assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

## **1.7 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.

### Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government Agency or Authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

## **1.8 Employee Benefits**

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within twelve 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 at 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 taken 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. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

### Separation and redundancy

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2008.

### Superannuation

Staff of the Commission are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

The Commission makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Commission's employees. The Commission accounts for the contributions as if they were contributions to defined contribution plans.

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 for the final fortnight of the year.

## **1.9 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 rewards 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.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

### **1.10 Cash**

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

### **1.11 Financial Assets**

The Commission classifies its financial assets in the following categories:

- financial assets as ‘at fair value through profit and loss’,
- ‘held-to-maturity investments’,
- ‘available-for-sale’ financial assets, and
- ‘loans and receivables’.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised upon ‘trade date’.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets ‘at fair value through profit and loss’.

### Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

### Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost - If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Income Statement.

## **1.12 Financial Liabilities**

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities are recognised and derecognised upon 'trade date'.

### Supplier and other payables

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

### **1.13 Contingent Liabilities and Contingent Assets**

Contingent Liabilities and Contingent Assets are not recognised in the Balance Sheet but are reported in the relevant notes. They may arise from uncertainty as to the existence of an asset or liability or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are reported when settlement is probable but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

Details of each class of contingent liabilities and contingent assets are disclosed in Note 11: Contingent Liabilities and Assets.

### **1.14 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. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor Agency's accounts immediately prior to the restructuring.

### **1.15 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 ‘makegood’ premises. These costs are included in the value of the Commission’s leasehold improvements with a corresponding provision for the ‘makegood’ recognised.

### Revaluations

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, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially 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 the operating result. Revaluation decrements for a class of asset are recognised directly through the operating result 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.

### Depreciation

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.

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.



Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	<b>2008</b>	<b>2007</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

### Impairment

All assets were assessed for impairment at 30 June 2008. 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.

## **1.16 Intangibles**

The Commission's intangibles comprise commercially purchased software. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Commission's software are 5 years (2006-07: 5 years).

All software assets were assessed for indicators of impairment as at 30 June 2008.

## **1.17 Taxation**

The Commission is exempt from all forms of taxation except fringe benefits tax (FBT) and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

### **Note 2: 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 3: Income****Revenue***Note 3A: Revenue from Government*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Appropriation:		
Departmental Outputs	<b><u>32,389</u></b>	<u>32,251</u>
<b>Total revenue from Government</b>	<b><u>32,389</u></b>	<u>32,251</u>

*Note 3B: Sale of goods and rendering of services*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Provision of goods - related entities	-	-
Provision of goods - external entities	<b>22</b>	3
Rendering of services - related entities	<b>58</b>	16
Rendering of services - external entities	<u>146</u>	<u>14</u>
<b>Total sales of goods and rendering of services</b>	<b><u>226</u></b>	<u>33</u>

**Gains***Note 3C: Sale of assets*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Infrastructure, plant and equipment		
Proceeds from sale	-	8
Carrying value of assets sold	-	-
Selling expense	<u>-</u>	<u>-</u>
<b>Net gain from sale of assets</b>	<b><u>-</u></b>	<u>8</u>

*Note 3D: Other gains*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Resources received free of charge	<u>33</u>	<u>168</u>
<b>Total other gains</b>	<b><u>33</u></b>	<u>168</u>

## Note 4: Expenses

### Note 4A: Employee benefits

	2008	2007
	<b>\$'000</b>	\$'000
Wages and salaries	18,494	17,810
Superannuation		
Defined contribution plans	431	252
Defined benefit plans	2,594	2,770
Leave and other entitlements	1,465	1,479
Separation and redundancies	-	-
<b>Total employee expenses</b>	<b><u>22,984</u></b>	<b><u>22,311</u></b>

### Note 4B: Suppliers

	2008	2007
	<b>\$'000</b>	\$'000
Provision of goods - related entities	1	25
Provision of goods - external entities	488	397
Rendering of services - related entities	148	130
Rendering of services - external entities	4,806	3,654
Operating lease rentals:		
Minimum lease payments	2,731	1,866
Workers compensation premiums	70	105
<b>Total supplier expenses</b>	<b><u>8,244</u></b>	<b><u>6,177</u></b>

*Note 4C: Depreciation and amortisation*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Depreciation:		
Leasehold improvements	<b>533</b>	224
Infrastructure, plant and equipment	<u><b>445</b></u>	<u>290</u>
<b>Total depreciation</b>	<u><b>978</b></u>	<u>514</u>
Amortisation:		
Leasehold make-good	<b>59</b>	59
Intangibles:		
Computer software	<u><b>15</b></u>	<u>12</u>
<b>Total amortisation</b>	<u><b>74</b></u>	<u>71</u>
<b>Total depreciation and amortisation</b>	<u><b>1,052</b></u>	<u>585</u>

*Note 4D: Finance costs*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Unwinding of discount	<u><b>34</b></u>	<u>32</u>
<b>Total finance costs</b>	<u><b>34</b></u>	<u>32</u>

*Note 4E: Write-down and impairment of assets*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Asset writedowns from		
Impairment of plant & equipment	-	8
Impairment of computer software	<u>-</u>	<u>-</u>
<b>Total write-down and impairment of assets</b>	<u><b>-</b></u>	<u>8</u>

The recoverable amount of items of plant and equipment and software written-off during 2006-07 which were no longer in use and / or unserviceable, was determined as nil.

*Note 4F: Losses from asset sales*

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Land and buildings		
Proceeds from sale	-	-
Carrying value of assets sold	<b>127</b>	-
Selling expense	-	-
Infrastructure, plant and equipment		
Proceeds from sale	<b>(16)</b>	-
Carrying value of assets sold	<b>16</b>	-
Selling expense	-	-
Intangibles		
Proceeds from sale	-	-
Carrying value of assets sold	-	-
Selling expense	-	-
<b>Losses form asset sales</b>	<b><u>127</u></b>	<b><u>-</u></b>

**Note 5: Financial Assets**

*Note 5A: Cash and cash equivalents*

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand or on deposit	<b><u>288</u></b>	<b><u>225</u></b>
<b>Total cash and cash equivalents</b>	<b><u>288</u></b>	<b><u>225</u></b>

**Note 5B: Trade and other receivables**

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Goods and services	<b>105</b>	233
Appropriations receivable: for existing outputs	<b>8,979</b>	<u>11,610</u>
<b>Total appropriations receivable</b>	<b>8,979</b>	<u>11,610</u>
GST receivable from the Australian Taxation Office	<b>104</b>	<u>87</u>
<b>Total trade and other receivables</b>	<b>9,188</b>	<u>11,930</u>
Receivables are aged as follows:		
Not overdue	<b>9,135</b>	11,886
Overdue by:		
30 to 60 days	<b>52</b>	41
More than 90 days	<u>1</u>	<u>3</u>
<b>Total receivables</b>	<b>9,188</b>	<u>11,930</u>
Receivables are represented by:		
Current	<b>9,188</b>	11,930
Non-current	<u>-</u>	<u>-</u>
<b>Total trade and other receivables</b>	<b>9,188</b>	<u>11,930</u>

**Note 6: Non-Financial Assets****Note 6A: Land and buildings**

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Leasehold improvements		
- fair value	<b>4,855</b>	1,286
- accumulated depreciation	<u>(448)</u>	<u>-</u>
<b>Total leasehold improvements</b>	<b>4,407</b>	<u>1,286</u>
<b>Total land and buildings (non-current)</b>	<b>4,407</b>	<u>1,286</u>

All revaluations are conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2007, an independent valuer, Kyle Baxter JP (Qualified), AVAA, SAPI, of the Australian Valuation Office conducted the valuations. Revaluation increment of \$454,000 for leasehold improvements was credited to the asset revaluation reserve by asset class and included in the equity section of the balance sheet, no decrements were expensed.

No indicators of impairment were found for leasehold improvements.

*Note 6B: Infrastructure, plant and equipment*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Infrastructure, plant and equipment		
- gross carrying value (at fair value)	<b>1,678</b>	1,125
- accumulated depreciation	<b>(418)</b>	-
<b>Total infrastructure, plant and equipment</b>	<b><u>1,260</u></b>	<u>1,125</u>
<b>Total infrastructure, plant and equipment (non-current)</b>	<b><u>1,260</u></b>	<u>1,125</u>

All revaluations are conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2007, an independent valuer, Kyle Baxter JP (Qualified), AVAA, SAPI, of the Australian Valuation Office conducted the valuations. Revaluation increment of \$99,000 for infrastructure, plant and equipment was credited to the asset revaluation reserve by asset class and included in the equity section of the balance sheet, no decrements were expensed. (2006: nil).

No indicators of impairment were found for infrastructure, plant and equipment.

*Note 6C: Intangibles*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Computer software at cost		
Purchased	<b>471</b>	463
Accumulated amortisation	<b>(410)</b>	(441)
<b>Total intangibles (non-current)</b>	<b><u>61</u></b>	<u>22</u>

No indicators of impairment were found for intangibles.



*Note 6D: Analysis of property, plant and equipment, and intangibles**TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment (2008-07)*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2007</b>			
Gross book value	1,286	1,125	2,411
Accumulated depreciation/amortisation and impairment	<u>( - )</u>	<u>( - )</u>	<u>( - )</u>
<b>Net book value 1 July 2007</b>	<b><u>1,286</u></b>	<b><u>1,125</u></b>	<b><u>2,411</u></b>
Additions - by purchase	3,840	596	4,436
Depreciation/amortisation expense	(592)	(445)	(1,037)
Impairments recognised in the operating result	-	-	-
Disposals:			
Other disposals	<u>(127)</u>	<u>(16)</u>	<u>(143)</u>
<b>Net book value 30 June 2008</b>	<b><u>4,407</u></b>	<b><u>1,260</u></b>	<b><u>5,667</u></b>
<b>Net book value as of 30 June 2008 represented by:</b>			
Gross book value	<u>4,855</u>	1,678	6,533
Accumulated depreciation/amortisation and impairment	<u>(448)</u>	<u>(418)</u>	<u>(866)</u>
	<b><u>4,407</u></b>	<b><u>1,260</u></b>	<b><u>5,667</u></b>

*TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment (2006-07)*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2006</b>			
Gross book value	1,969	2,661	4,630
Accumulated depreciation/amortisation and impairment	<u>(673)</u>	<u>(2,037)</u>	<u>(2,710)</u>
<b>Net book value 1 July 2006</b>	<b><u>1,296</u></b>	<b><u>624</u></b>	<b><u>1,920</u></b>
Additions - by purchase	-	700	700
Revaluations and impairments through equity			
	454	99	553
Depreciation/amortisation expense	(283)	(290)	(573)
Impairments recognised in the operating result	-	(8)	(8)
Other movements - adjustment to provision for makegood	<u>(181)</u>	<u>-</u>	<u>(181)</u>
<b>Net book value 30 June 2007</b>	<b><u>1,286</u></b>	<b><u>1,125</u></b>	<b><u>2,411</u></b>
<b>Net book value as of 30 June 2007 represented by:</b>			
Gross book value	1,286	1,125	2,411
Accumulated depreciation/amortisation and impairment	<u>-</u>	<u>-</u>	<u>-</u>
	<b><u>1,286</u></b>	<b><u>1,125</u></b>	<b><u>2,411</u></b>

**TABLE A - Reconciliation of the opening and closing balances of intangibles (2008-07)**

<i>Item</i>	<i>Computer software purchased</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2007</b>		
Gross book value	463	463
Accumulated depreciation/amortisation and impairment	<u>(441)</u>	<u>(441)</u>
<b>Net book value 1 July 2007</b>	<u>22</u>	<u>22</u>
Additions - by purchase	54	54
Depreciation/amortisation expense	(15)	(15)
Impairments recognised in the operating result	-	-
Other movements - adjustment to provision for makegood	<u>-</u>	<u>-</u>
<b>Net book value 30 June 2008</b>	<u>61</u>	<u>61</u>
<b>Net book value as of 30 June 2008 represented by:</b>		
Gross book value	471	471
Accumulated depreciation/amortisation and impairment	<u>(410)</u>	<u>(410)</u>
	<u>61</u>	<u>61</u>

**TABLE A - Reconciliation of the opening and closing balances of intangibles (2006-07)**

<i>Item</i>	<i>Computer software purchased</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2006</b>		
Gross book value	575	575
Accumulated depreciation/amortisation and impairment	<u>(541)</u>	<u>(541)</u>
<b>Net book value 1 July 2006</b>	<u>34</u>	<u>34</u>
Additions - by purchase	-	-
Revaluations and impairments through equity	-	-
Depreciation/amortisation expense	(12)	(12)
Impairments recognised in the operating result	-	-
Other movements - adjustment to provision for makegood	<u>-</u>	<u>-</u>
<b>Net book value 30 June 2007</b>	<u>22</u>	<u>22</u>
<b>Net book value as of 30 June 2007 represented by:</b>		
Gross book value	463	463
Accumulated depreciation/amortisation and impairment	<u>(441)</u>	<u>(441)</u>
	<u>22</u>	<u>22</u>

*Note 6E: Other non-financial assets*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Prepayments	<u>475</u>	<u>310</u>
<b>Total other non-financial assets</b>	<b><u>475</u></b>	<b><u>310</u></b>

All other non-financial assets are current assets.

No indicators of impairment were found for other non-financial assets.

**Note 7: Payables***Note 7A: Suppliers*

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Trade creditors	<u>623</u>	<u>434</u>
<b>Total supplier payables</b>	<b><u>623</u></b>	<b><u>434</u></b>
Supplier payables represented by:		
Current	623	434
Non-current	<u>-</u>	<u>-</u>
<b>Total supplier payables</b>	<b><u>623</u></b>	<b><u>434</u></b>

Settlement is usually made net 30 days.

## Note 8: Provisions

### Note 8A: Employee provisions

	2008	2007
	<b>\$'000</b>	\$'000
Salaries and wages	191	161
Leave	7,263	7,304
Superannuation	<u>58</u>	<u>30</u>
<b>Total employee provisions</b>	<b><u>7,512</u></b>	<b><u>7,495</u></b>
Employee provisions are represented by:		
Current	7,023	7,053
Non-current	<u>489</u>	<u>442</u>
<b>Total employee provisions</b>	<b><u>7,512</u></b>	<b><u>7,495</u></b>

The classification of current includes amounts for which there is not an unconditional right of deferral of one year, hence in the case of employee provisions the above classification does not equal the amount expected to be settled within one year of the reporting date. Employee provisions expected to be settled in twelve months from the reporting date are \$3,765,000 (2007: \$3,802,000), and in excess of one year \$3,747,000 (2007: \$3,693,000).

### Note 8B: Other provisions

	2008	2007
	<b>\$'000</b>	\$'000
Restoration obligations	479	<u>573</u>
<b>Total other provisions</b>	<b><u>479</u></b>	<b><u>573</u></b>
Other provisions are represented by:		
Current	-	-
Non-current	479	<u>573</u>
<b>Total other provisions</b>	<b><u>479</u></b>	<b><u>573</u></b>

	Provision for restoration \$'000
<b>Carrying amount 1 July 2007</b>	<b>573</b>
Amount paid on makegood	(128)
Unwinding of discount	<u>34</u>
<b>Closing balance 2008</b>	<b><u>479</u></b>

The Commission currently has 1 agreement for the leasing of premises which has a provision requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made provision to reflect the present value of this obligation. (2006-07: 2 agreements)

**Note 9: Restructuring*****Departmental Restructuring***

As a result of a restructuring of administrative arrangements in the 2006-2007 financial year, the Commission assumed responsibility for the function: Business Cost Calculator

In respect of functions assumed, there were no assets or liabilities transferred to the Commission.

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenues and Expenses of the Business Cost Calculator</b>		
<b><i>Revenues</i></b>		
Recognised by the Commission	-	712
Recognised by the Department of Industry, Tourism and Resources	-	211
<b><i>Total Revenues</i></b>	<b>-</b>	<b>923</b>
<b><i>Expenses</i></b>		
Recognised by the Commission	-	479
Recognised by the Department of Industry, Tourism and Resources	-	211
<b><i>Total Expenses</i></b>	<b>-</b>	<b>690</b>

This function was included in the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation in 2007-2008 as per note 1.1. There were no assets or liabilities transferred to the Department of Finance and Deregulation in respect of this function.

## Note 10: Cash Flow Reconciliation

	<i>2008</i>	<i>2007</i>
	<b>\$'000</b>	<b>\$'000</b>
<b>Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement</b>		
<b>Report Cash and Cash Equivalents as per:</b>		
Cash Flow Statement	<b>288</b>	225
Balance Sheet	<u><b>288</b></u>	<u>225</u>
Difference	<u><u>-</u></u>	<u><u>-</u></u>
<b>Reconciliation of operating result to net cash from operating activities:</b>		
Operating result	<b>207</b>	3,347
Depreciation / amortisation	<b>1,052</b>	585
Finance costs	<b>34</b>	32
Net write-down of non-financial assets	<b>-</b>	8
(Gain) / loss on disposal assets	<b>127</b>	(8)
(Increase) / decrease in net receivables	<b>2,057</b>	(3,690)
(Increase) / decrease in prepayments	<b>(165)</b>	27
Increase / (decrease) in employee provisions	<b>17</b>	132
Increase / (decrease) in supplier payables	<b>189</b>	287
Increase / (decrease) in other provisions	<u><b>(128)</b></u>	<u>-</u>
<b><i>Net cash from / (used by) operating activities</i></b>	<u><u><b>3,390</b></u></u>	<u><u>720</u></u>

## Note 11: Contingent Liabilities and Assets

At 30 June 2008, to the best of its knowledge, the Commission was not exposed to any unrecognised contingencies that would have any material effect on the financial statements.

**Note 12: Executive Remuneration**

	<i>2008</i>	<i>2007</i>
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	2	3
\$145,000 to \$159,999	2	2
\$160,000 to \$174,999	1	-
\$175,000 to \$189,999	2	6
\$190,000 to \$204,999	5	3
\$205,000 to \$219,999	4	2
\$220,000 to \$234,999	1	3
\$235,000 to \$249,999	2	1
\$250,000 to \$264,999	1	2
\$265,000 to \$279,999	3	2
\$280,000 to \$294,999	-	1
\$310,000 to \$324,999	1	1
\$355,000 to \$369,999	<u>1</u>	<u>-</u>
<b>Total</b>	<b><u>25</u></b>	<b><u>26</u></b>
Aggregate amount of total remuneration of executives shown above	<b>5,415,321</b>	\$5,413,701
Aggregate amount of separation and redundancy/termination payments during the year to executives shown above	-	-

**Note 13: Remuneration of Auditors**

	<i>2008</i>	<i>2007</i>
	<b>\$'000</b>	<b>\$'000</b>
Financial statement audit services are provided free of charge to the Commission.		
The value of the services provided was:	<u>33</u>	<u>32</u>
	<b><u>33</u></b>	<b><u>32</u></b>

No other services were provided by the Auditor-General.

## Note 14: Average Staffing Levels

	<b>2008</b>	<i>2007</i>
The average staffing levels for the Commission during the year were:	<b>199</b>	202

The average staffing level is in respect of all employees of the Commission including Holders of Public Office.

Further information on staffing levels is provided in Appendix A of the Annual Report.

## Note 15: Financial Instruments

### *Note 15A: Categories of financial instruments*

	<b>2008</b>	<i>2007</i>
	<b>\$'000</b>	\$'000
<b>Financial Assets</b>		
Loans and receivables		
Cash and cash equivalents	<b>288</b>	225
Trade receivables	<u><b>105</b></u>	<u>233</u>
<b>Carrying amount of financial assets</b>	<u><b>393</b></u>	<u>458</u>
<b>Financial Liabilities</b>		
Other liabilities		
Payables – suppliers	<u><b>623</b></u>	<u>434</u>
<b>Carrying amount of financial liabilities</b>	<u><b>623</b></u>	<u>434</u>

### *Note 15B: Net income and expense from financial assets*

There is no income or expense from financial assets – loans and receivables in the year ending 30 June 2008. (2007: nil)

### *Note 15C: Net income and expense from financial liabilities*

There is no income or expense from financial liabilities – payables in the year ending 30 June 2008. (2007: nil)



*Note 15D: Fair value of financial instruments*

There are no financial instruments held at 30 June 2008 where the carrying amount is not a reasonable approximation of fair value. (2007: nil)

*Note 15E: Credit Risk*

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total of trade receivables (2008: \$105,000 and 2007: \$233,000). The Commission has assessed that there is no the risk of default on payment.

The Commission manages its credit risk by mainly dealing with other government agencies.

The Commission holds no collateral to mitigate against credit risk.

No financial instruments were impaired in 2008 (2007: nil).

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 5B.

*Note 15F: Liquidity Risk*

The Commission's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the Commission will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to the Commission (eg. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Commission is appropriated funding from the Australian Government. The Commission manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Commission has policies in place to ensure timely payments are made when due and has no past experience of default.

All financial liabilities mature within one year (2007: one year).

*Note 15F: Market Risk*

The Commission holds basic financial instruments that do not expose the Commission to certain market risks.

The Commission is not exposed to currency risk, other price risk or interest rate risk.

**Note 16: Appropriations**

*Table A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations*

<i>Particulars</i>	<i>Departmental Outputs</i>	
	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
Balance carried forward from previous period	11,237	7,568
Appropriation Act:		
Appropriation Act (No 1)	34,443	28,471
Appropriation Act (No 3)	-	3,068
Reductions of appropriations (Appropriation Act section 9)	(150)	-
FMA Act:		
Refunds credited (FMA section 30)		-
Appropriations to take account of recoverable GST (FMA s 30A)	1,323	680
Annotations to 'net appropriations' (FMA s 31)	1,412	152
Adjustment of appropriations on change of entity function (FMA s 32)	(2,564)	712
Total appropriations available for payments	45,701	40,651
Cash payments made during the year (GST inclusive)	(36,330)	(29,414)
<b>Balance of authority to draw cash from the CRF for Ordinary Annual Services Appropriations</b>	<b>9,371</b>	<b>11,237</b>
<i>Represented by:</i>		
Cash at bank and on hand	288	225
Departmental appropriations receivable	8,979	10,925
GST receivable from the ATO	104	87
<b>Total</b>	<b>9,371</b>	<b>11,237</b>

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the

appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 24 June 2008, the Finance Minister determined reduction in departmental outputs appropriations following a request by the Treasurer. The amount determined under Appropriation Act (No.1) of 2007-08 was \$150,000.

*Table B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Other than Ordinary Annual Services Appropriations*

<b>Particulars</b>	<b>Non-operating</b>	
	<i>Equity</i>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous period	<b>685</b>	25
Appropriation Act:		
Appropriation Act (No 2)	<b>462</b>	-
Appropriation Act (No 4)	-	685
FMA Act:		
Appropriations to take account of recoverable GST (FMA s 30A)	<u>-</u>	<u>-</u>
Total appropriations available for payments	<b>1,147</b>	710
Cash payments made during the year (GST inclusive)	<b><u>(1,147)</u></b>	<u>(25)</u>
<b>Balance of authority to draw cash from the CRF for Other than Ordinary Annual Services Appropriations</b>	<b><u>-</u></b>	<b><u>685</u></b>
<i>Represented by:</i>		
Cash at bank and on hand	-	-
Appropriations receivable	<u>-</u>	<u>685</u>
<b>Total</b>	<b><u>-</u></b>	<b><u>685</u></b>

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

## **Note 17: 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 2000-2008 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 *Financial Management and Accountability Act 1997*.

The purpose of the Services for other Governments and 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*.

## **Note 18: Compensation and Debt Relief**

In both 2007-08 and 2006-07, no expenses and/or provisions in relation to the following compensation and debt relief mechanisms were made during the reporting period:

- (a) 'Act of Grace' expenses;
- (b) waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*;
- (c) ex-gratia payments;
- (d) payments under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme; and
- (e) payments in special circumstances relating to APS employment pursuant to section 73 of the *Public Service Act 1999*.

## Note 19: Reporting of Outcomes

### Note 19A: Net Cost of Outcome Delivery

	<i>Outcome 1</i>	
	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>Expenses</b>		
Departmental	<u>32,441</u>	<u>29,113</u>
<b>Total expenses</b>	<u>32,441</u>	<u>29,113</u>
<b>Costs recovered from provision of goods and service to the non government sector</b>		
Departmental	<u>168</u>	<u>17</u>
<b>Total costs recovered</b>	<u>168</u>	<u>17</u>
<b>Other external revenues</b>		
Departmental	<u>58</u>	<u>24</u>
<b>Total other external revenues</b>	<u>58</u>	<u>24</u>
<b>Net cost of outcome</b>	<u>32,215</u>	<u>29,072</u>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

Note 19B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1.1								Outcome 1	
	Output 1.1.1		Output 1.1.2		Output 1.1.3		Output 1.1.		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Departmental expenses</b>										
Employees	15,785	14,154	2,650	3,123	158	178	4,391	4,856	22,984	22,311
Suppliers	5,813	3,909	972	1,006	33	37	1,426	1,225	8,244	6,177
Depreciation and amortisation	705	364	138	86	6	5	203	130	1,052	585
Other	108	25	21	6	1	–	31	9	161	40
<b>Total expenses</b>	<b>22,411</b>	<b>18,452</b>	<b>3,781</b>	<b>4,221</b>	<b>198</b>	<b>220</b>	<b>6,051</b>	<b>6,220</b>	<b>32,441</b>	<b>29,113</b>
<b>Funded by:</b>										
Revenues from government	22,375	20,680	3,775	4,700	198	200	6,041	6,671	32,389	32,251
Sales of goods and services	157	21	26	5	1	–	42	7	226	33
Other non-taxation revenues	23	94	4	6	–	–	6	76	33	176
<b>Total revenues</b>	<b>22,555</b>	<b>20,795</b>	<b>3,805</b>	<b>4,711</b>	<b>199</b>	<b>200</b>	<b>6,089</b>	<b>6,754</b>	<b>32,648</b>	<b>32,460</b>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

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## References

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