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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	

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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:      Migration, Trade and Investment  
Two Australian Case Studies

The Stern Review: an assessment of its      Distributional Effects of Changes in  
methodology      Australian Infrastructure Industries during  
the 1990s

Part Time Employment: the Australian      Armington General Equilibrium Model:  
Experience      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

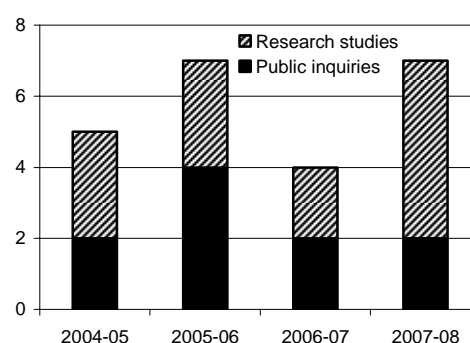
The Productivity Commission's role in informing public policy development and community understanding on key issues influencing Australia's productivity and living standards is pursued through four major outputs. The principal developments in these activities during 2007-08 are outlined below.

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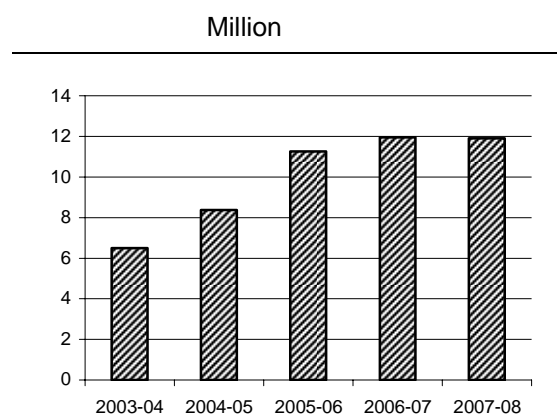
completion of inquiries. Additional email alerts are also sent to Commonwealth parliamentarians, the media, government departments and contacts in the States and Territories.

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.

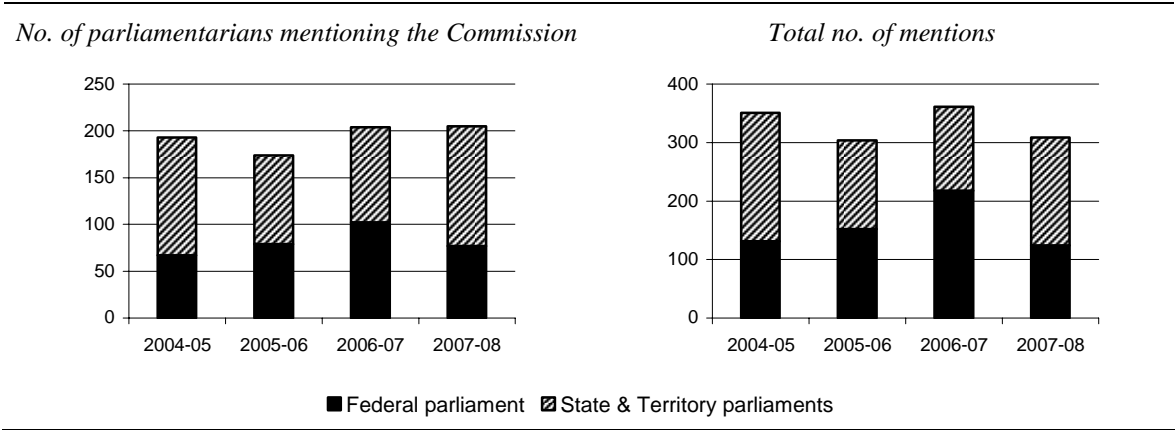
Some nineteen Parliamentary Library reports in 2007-08 referred to Commission inquiry and research reports, or to reports on government services (table B.2). Notably, extensive use was made of Commission reports within the Parliamentary Library Briefing Book on key issues for the 42<sup>nd</sup> Parliament.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