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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 concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)) or by contacting Media and Publications on (03) 9653 2244 or email: [maps@pc.gov.au](mailto:maps@pc.gov.au)



14 October 2010

The Assistant Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Assistant Treasurer

We submit to you the Productivity Commission's annual report for 2009-10. 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

Michael Woods  
Deputy Chairman

Patricia Scott  
Commissioner

Wendy Craig  
Commissioner

Louise Sylvan  
Commissioner

Robert Fitzgerald  
Commissioner

Philip Weickhardt  
Commissioner

David Kalisch  
Commissioner



## Chairman and Commissioners



Louise Sylvan, Gary Banks (Chairman) & Robert Fitzgerald



Angela MacRae & Patricia Scott



David Kalisch & Philip Weickhardt



Mike Woods (Deputy Chairman) & Wendy Craik

Absent: Siobhan McKenna

## 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
ANZSIC	Australian and New Zealand Standard Industrial Classification
ANZSOG	Australia and New Zealand School of Government
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
BRCWG	Business Regulation and Competition Working Group (COAG)
CAGP	China Australia Governance Program
COAG	Council of Australian Governments
CPRS	Carbon Pollution Reduction Scheme
CRC	COAG Reform Council
EGW&WS	Electricity, gas, water and waste services
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTEs	Government trading enterprises
ICTs	Information and communication technologies
IMF	International Monetary Fund
LP	labour productivity
MFP	multifactor productivity
NAPLAN	National Assessment Program for Literacy and Numeracy
NATSEM	National Centre for Social and Economic Modelling

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NBN	National Broadband Network
NCP	National Competition Policy
NRA	National Reform Agenda
OECD	Organisation of Economic Cooperation and Development
OHS	Occupation health and safety
OID	<i>Overcoming Indigenous Disadvantage</i> report
PC	Productivity Commission
PTA	Preferential Trade Agreement
R&D	Research and development
ROGS	Report on Government Services
SEACI	South Eastern Australian Climate Initiative
SES	Senior Executive Service
WTO	World Trade Organization

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# 1 Good public policy — why evidence and process matter

Effective policy development demands careful analysis of different options, drawing on available evidence. Good process is the key to ensuring that this happens, whether in developing new policies or evaluating existing programs. Evidence-based analysis and good process matter because getting policy right matters. Public policy measures can have pervasive effects on the wellbeing of the community.

The community deserves assurance that policies are designed and implemented to produce the outcomes it seeks in a cost-effective way. Reforms that raise the quality of spending can reduce taxation imposts and enable the objectives of regulation to be met more efficiently, contributing to growth in productivity, employment and income. In contrast, policies conceived without proper assessment carry risks of locking in productivity-sapping impacts and reducing the capacity to fund more worthwhile initiatives.

During the 1980s and 1990s, Australia gained an international reputation for policy processes and reforms which involved the assembly of evidence and transparent consideration of options. But there is scope to do better. In this chapter, the Commission draws on its experience in conducting inquiries and research studies over the years to identify ways of strengthening evidence-based policy development in the future.

## **Evidence and process — the two pillars**

While good evidence and due process are fundamental to good public policy, they cannot assure it. Public policy is influenced by a variety of stakeholders, analysts and decision makers who will tend to interpret evidence through a particular ‘lens’ based on their own values, perceptions and interests. Governments must often make contentious policy decisions in a ‘politically charged’ arena, on behalf of a community with its own preconceptions but often with less access to relevant information.

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These difficulties reinforce the need for good process — especially transparency to draw out and test the available evidence — and, ultimately, government leadership to promote and consolidate community support for reform. Drawing on the experiences of its member countries, the OECD (2010e, p. 9) observed recently that:

... when advancing contentious reforms, experience suggests that successful leadership is often about winning consent rather than securing compliance. This makes effective communication, underpinned by solid research, all the more important.

Better use of evidence and sound policy processes will be crucial in advancing the Council of Australian Governments (COAG) reform agenda. This aims to raise workforce participation and productivity growth, and thus underpin rising living standards in the face of an ageing population. Under that agenda, all governments have endorsed ambitious goals and spending programs, much of which are in the ‘data-challenged’ field of human capital development (table 1.1).

### **Evidence-based analysis engenders support for reform**

Balanced ex ante analysis can help make the case for well-conceived reform and careful ex post evaluations of policies can help secure better government decisions and consolidate support for them within the community.

Following a remit from COAG, an Industry Commission study (1995) projected that the National Competition Policy (NCP) could generate a net benefit equivalent to as much as 5.5 per cent of GDP if fully implemented. In a 1999 inquiry, the Commission similarly projected a boost in the level of GDP of 2.5 per cent from selected NCP reforms of relevance to regional Australia (PC 1999c, 1999d). Retrospective studies since then support the scale of these estimates. The Commission’s 2005 review of the NCP identified that the realised productivity and price changes in key infrastructure sectors alone in the 1990s — to which the NCP had directly contributed — had increased Australia’s GDP by 2.5 per cent, or \$20 billion (PC 2005a, 2005h).

Similarly, Commission researchers modelled the potential benefits from allowing irrigators to trade water during drought (Peterson et al. (2004)). They found that allowing trade more than halved the impact of the reductions in water on the gross regional product of the southern Murray-Darling Basin by mitigating the losses in the activities most reliant on water. Subsequent analyses by the National Water Commission (2010), Frontier Economics (2007), Mallawaarachchi and Foster (2009) and Productivity Commission (2010a) confirmed that water trading in the Basin had enabled many irrigators to survive consecutive years of drought.

**Table 1.1 The COAG Reform Agenda: a snapshot**

<i>Reform area</i>	<i>Objective/s</i>	<i>Some key priorities/initiatives</i>
Health and Ageing	<ul style="list-style-type: none"> <li>• Improve health outcomes and the sustainability of the health system</li> </ul>	<ul style="list-style-type: none"> <li>• Preventative health: reduce smoking, obesity and diabetes</li> <li>• Increase access to primary and community healthcare (GPs, dentists, mental health practitioners), hospitals and aged care</li> <li>• National registration and accreditation scheme for health professionals</li> <li>• More efficient pricing of public hospitals and health workforce reforms</li> </ul>
Productivity	<ul style="list-style-type: none"> <li>• Improve human capital outcomes through reform in areas of education, skills, early childhood development &amp; teacher quality</li> </ul>	<ul style="list-style-type: none"> <li>• Lift year 12 retention rates, literacy and numeracy achievement</li> <li>• Improve teacher quality</li> <li>• National reporting on performance</li> <li>• National vocational education and training system</li> </ul>
Climate change and water	<ul style="list-style-type: none"> <li>• Ensure an effective national response to climate change, through an emissions trading scheme and nationally consistent set of climate change measures</li> <li>• Ensure sustainable water use across Australia</li> </ul>	<ul style="list-style-type: none"> <li>• Murray-Darling Basin Agreement</li> <li>• Reform national water markets</li> <li>• National strategy for energy efficiency</li> <li>• National renewable energy scheme</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• Improve infrastructure planning and investment</li> <li>• Remove blockages to productive investment</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure Australia work program (national infrastructure audit, priority list)</li> <li>• Develop best practice guidelines for public-private partnerships</li> </ul>
Business regulation and competition	<ul style="list-style-type: none"> <li>• Reduce regulatory burdens on business</li> <li>• Delivering deregulation and competition priorities</li> <li>• Improve processes for regulation making &amp; review</li> </ul>	<ul style="list-style-type: none"> <li>• 27 deregulation priorities including OHS, occupational licensing, food regulation, consumer policy and credit, environmental approvals process and payroll tax</li> <li>• 8 areas of competition reform including anti-dumping, parallel importation of books and national transport, infrastructure and energy reform.</li> </ul>
Housing	<ul style="list-style-type: none"> <li>• Improve housing supply and affordability</li> <li>• Halve the number of homeless people turned away from shelters within 5 yrs</li> <li>• Improve social and community housing</li> </ul>	<ul style="list-style-type: none"> <li>• Increase supply of land, access to social housing</li> <li>• Planning reform</li> <li>• National approach to homelessness</li> </ul>
Indigenous reform	<ul style="list-style-type: none"> <li>• Close the gap on indigenous disadvantage, particularly for: life expectancy, child mortality, literacy and numeracy</li> </ul>	<ul style="list-style-type: none"> <li>• Increase access to quality early childhood education, schooling, vocational education and health services</li> <li>• Reform the provision of social housing for Indigenous people</li> <li>• Improve community safety (target domestic violence, drug and alcohol abuse).</li> </ul>

*Sources:* COAG Communiqués (20 December 2007, 26 March 2008, 3 July 2008, 2 October 2008, 29 November 2008), Rudd, Swan and Roxon 2010.

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Quality ex post evaluation can also identify where and how policy may need refinement. A Commission review of the Job Network found that while the net employment outcomes were low, as with previous programs, Job Network achieved outcomes at lower cost. The Commission identified some adjustments to scheme design and administration that could improve the effectiveness of services for job seekers with little impact on funding costs (PC 2002e).

In other cases, evaluation can point to the need to terminate a policy or program. The NCP's evidence-based process put the onus of proof on those seeking retention of anti-competitive regulatory provisions to establish that such restrictions were in the public interest. As a consequence, hundreds of legislative restrictions that benefited particular interests, but imposed larger costs on the rest of the community, were removed (NCC 2005; PC 2005a).

The reforms that drove Australia's improved economic performance in the late 1980s and 1990s were aided by evidence of the economy-wide costs of protection and anti-competitive regulation, together with processes that used this information to build community support for reforms (box 1.1). For these earlier reforms, the OECD commented that other countries could learn from Australia's 'willingness to commission expert advice and to heed it, to try new solutions, and to patiently build constituencies that support further reforms' (OECD 2004).

Some policy areas, however, are resistant to quantification, with more qualitative analysis and judgment being required. In its review of executive pay for example, the Commission was hindered by a lack of consistent, long-running data on remuneration and a complex interaction of 'black letter' and 'soft' law that sought to achieve subtle behavioural responses in company boardrooms. It noted that 'with all the uncertainty, considerable judgment is called for, particularly in relation to the magnitude of identified problems and the relative downside risks in intervening versus doing nothing' (PC 2009g, p. 11).

Transparent public processes are important to ensure that necessary judgments by advisers and decision-makers can be adequately scrutinised and tested, particularly by those who will be affected. For more intractable policy dilemmas, there is a strong case for iterative policy reforms that draw on accumulating evidence along the way to help assess the direction of long term reforms. Confronted with uncertainties (and potentially large costs) in its review of road and rail infrastructure for example, the Commission recommended a phased approach to reform with each step preceded by examination of costs, benefits and distributional impacts (PC 2006h).



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### Box 1.1 **Good evidence and process: ‘reform-era’ successes**

Implementation of the transformative reform agenda of the 1980s and 1990s required skilful political leadership and community acceptance of change. Evidence-based processes assisted in a number of ways.

- They promoted awareness of the costs of existing policies and the benefits from reform
  - for example, the Commission’s (and its predecessors’) analyses of the costs borne by the mining and agricultural sectors as a consequence of manufacturing protection helped to galvanise those sectors as major political forces for tariff liberalisation (PC 2003c; Banks 2005, 2010).
- They gave governments the opportunity to gauge community reaction to reform options, reducing the prospect of unanticipated responses
  - for example, the Commission’s inquiry into Private Health Insurance (IC 1997) examined the community rating system which prevented health funds discriminating on the basis of age. The system was initially perceived as both ‘fair’ and politically off limits. However, analysis showed that it actually was leading to inequities. With young people not contributing to the pool, premiums for remaining (generally older) members spiralled, resulting in further exits. The Commission’s recommendation that people entering insurance late should pay higher premiums than those who enter early gained support and was adopted by the Government.
- They enabled governments to make the case more convincingly for policy changes and to resist pressures to introduce nationally costly measures
  - for example, the Commission’s analyses of work practices, including in waterfront (PC 1998a, 1998b) and construction (PC 1999e), exposed cost padding and inefficient practices which provided independent support for calls for reform.

### **Building better evidence *through* good process**

The Commission’s inquiries and studies have revealed some key features of the policy process which help achieve good outcomes. Policy progress can be accelerated, and costly errors reduced, by:

1. clearly defining the problem to be addressed and establishing a conceptual framework to guide evidence gathering and interpretation
2. acquiring better data on ‘baseline’ situations and measuring the changed outcomes as new policies are implemented
3. consulting widely to ensure that all available evidence is incorporated, and providing early ‘airing’ of proposed policy options to test their viability

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4. building quality evaluation into the implementation of policies and using evaluation to shape improvements
  5. evaluating different policy approaches across states and territories
  6. making effective use of scarce evaluation skills by drawing on academic expertise and sharing experience across jurisdictions.

### *Defining the problem clearly*

Sometimes the reasons for public concern in a policy area and what the community expects to achieve through government intervention are unclear or imprecise. And community perceptions of the scale or urgency of a problem can sometimes run ahead of reality, or be heightened unduly by sectional interests. Failure to define a problem carefully can lead to unnecessary and inappropriately designed policy actions.

- Participants in the Commission's inquiry into paid parental leave variously identified nine different (and sometimes conflicting) objectives for a leave scheme. Analysis enabled those objectives which were unlikely to be affected by paid parental leave to be set aside, allowing a focus on those that were relevant to policy design (PC 2009h).
- The Commission was asked to assess Australia's consumer product safety system with the presumption that there were major problems. While areas for improvement were identified, the evidence suggested that rates of injury and death from faulty consumer products had been declining, and that remaining injuries were often attributable to consumer misuse or environmental factors, rather than to the products themselves (PC 2006d).

Sometimes policy objectives and policy measures can drift out of alignment. The Commission found that drought policy *objectives* — namely, preparing for drought, managing and coping during drought and recovering after drought — recognised drought to be a recurring feature of climate and sought therefore to promote self reliance. However, as they evolved over time, drought *programs* focused almost exclusively on crisis payments during drought, undermining such self-reliance (PC 2009c).

### *Better data*

It is difficult to evaluate the impact of a policy without information about the state of play before it was introduced. But even good baseline data are of limited value if there is little information on how performance evolved subsequently. For a 1999

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inquiry into gambling, the Commission found the data deficient to judge key policy dimensions of problem gambling, and therefore conducted its own survey to establish a baseline (PC 1999a). Its subsequent 2010 inquiry found that, while much data are now collected, they are not appropriately targeted to shed light on gambling policy issues and are marred by differences among jurisdictions (PC 2010b).

The challenge of accessing information that has been collected can compound the problems of deficient or missing data. Data are of limited value if few researchers have access. In a study commissioned by the Australian Government into public and private hospitals, the Commission encountered long delays in getting access to the data it needed (box 1.2).

**Box 1.2    Accessing performance data on hospitals**

For its study comparing the performance of public and private hospitals, the Commission found that datasets are limited by missing information and inconsistent collection methods — for instance, there is no robust data on the costs of public and private hospitals, and no nationally consistent data on hospital-acquired infections. Compounding this were significant delays in accessing data beyond what could reasonably be caused by a need to address privacy concerns.

The Commission encountered: requirements imposed by the Australian Bureau of Statistics (ABS) that restrict use of public data; barriers to accessing data held by the Australian Institute of Health and Welfare due to a need to obtain approval from state and territory governments for its release; and the need for private hospital operators to approve access to their data.

These data collections could be made more available to researchers to interrogate and to identify improvements in the efficiency and effectiveness of health care in a way that meets legitimate confidentiality restrictions. The community funds data collections in the public hospital sector — including collections compiled by the ABS — and, through public and private contributions to the cost of private hospital care, also contributes to the cost of data collections in the private sector. Accordingly, there is a strong case for maximising the benefits that the community achieves from data it has paid for.

*Source:* PC (2009f).

The Steering Committee for COAG’s Review of Government Services — for which the Commission provides the Secretariat — has over the years found some government-funded bodies to be unresponsive to requests for information. In some cases, even new presentations of already published data have required Ministerial authorisation, and a single jurisdiction has been able to veto publication of the data.

Since 2002, the Steering Committee has been reporting on indicators of Indigenous disadvantage to inform governments about whether policies are achieving positive

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outcomes. Although four reports have now been produced, there is still a lack of comparable trend data for about half of the 50 indicators (SCRGSP 2009, Banks 2009a).

### *Consultation and 'stress-testing' of proposals*

Transparent consultations can help to identify the full impact of proposed changes in policy or regulations and can be an important source of evidence in their own right. Early consultation can establish a clearer understanding of the 'baseline' situation, the magnitude of problems, the extent of compliance costs and can ensure all relevant options are considered and possible unanticipated consequences uncovered. After initial consultations, draft reports, 'green papers' and exposure drafts can be used to 'stress test' preliminary policy proposals.

The Commission's latest review of regulatory burdens on business found that many in the finance and property industries considered the most significant regulatory failings to be: a lack of transparency and continuity in consultation processes, short consultation timeframes and a lack of credible evidence in current regulation-making (PC 2010c). When consultations are short and bound by confidentiality agreements, participants cannot be confident that their views have been properly weighted and that others' views have been tested appropriately.

During the Commission's inquiry into executive remuneration, employees, employers and unions raised concerns about a new policy initiative to change the taxation treatment of employee share schemes. Information received by the Government in response to the announcement, on which there had been little consultation, resulted in several revisions to the policy, with a final position emerging around two months later, during which time many such schemes were put in abeyance (PC 2009a).

The costs and time involved for a robust consultation process, while significant, are generally much smaller than the costs and uncertainty generated by ill-advised policy measures that subsequently need to be recast. Robust consultation in the early stages also avoids governments being placed on the back foot and needing to negotiate late changes with those affected. Such negotiation can lead to inferior outcomes.

### *Building quality evaluation into the policy*

Better data will not of itself lead to improved policies; data needs to be put to use effectively. Evaluation sometimes seems an afterthought to the policy

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implementation process and, on occasion, appears geared only to enable proclamation of success or failure rather than policy improvement. It is rare to find funding for and design of high-quality evaluation at early stages to guide policy implementation and refinement. The Commission's study into the not-for-profit sector recommended building into policy initiatives from the outset the mechanisms and funding for data collection and post-implementation reviews (PC 2010d).

One requirement for good policy-making is independent scrutiny of, and public reporting on, the performance of agencies in developing and implementing regulations. Most jurisdictions now require regulatory impact statements (RISs) for new or amended legislation. This encourages the adoption of benefit-cost frameworks. However, there is scope for improvement. In its recent annual reviews of regulatory burdens, the Commission has recommended that the Australian Government improve the transparency and accountability of its gatekeeping processes and that a 'consultation' RIS be incorporated into the regulation making process (PC 2009b, 2010c).

The RIS process is less well equipped to ensure effective post-implementation outcomes. The Commission has previously identified a need to improve the machinery for stronger monitoring of outcomes (PC 2005a).

### *Systematic learning across jurisdictions*

New policies often cannot be implemented at the same time everywhere. The inevitable need for sequencing of project roll-out can be turned to advantage and yield important benefits if used to design and evaluate pilot projects. Differences in policy approaches across jurisdictions also enable policy learning from the natural experiments to which such variations give rise.

A positive example of 'competitive federalism' was noted in the Commission's review of the NCP. The rewards and sanctions of the NCP framework, in concert with public assessments, motivated governments to learn from different regulatory approaches in other jurisdictions to advance their own reform agendas (PC 2005a).

Outside of that formal incentive framework, learning through policy experimentation has been less common, particularly for social policies. Indigenous policy in particular, has suffered from this deficiency.

One advantage of our Federation is that it has generated many different policy and program innovations. However, with some exceptions, Australia has squandered the opportunity to learn systematically from these diverse experiences in order to identify those that could make a difference if applied nationally. (Banks 2009a)

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The Steering Committee for COAG's Review of Government Services has sought to redress this in its work by including case studies of programs that are, or appear to be, working. In its reporting on governments' service provision, the Steering Committee has also published data before it is uniformly available from all jurisdictions as a means to induce better data collection (SCRGSP 2010). Consequently, these reports have often encouraged the development of particular performance indicators.

### *Building evaluation skills and utilising academic expertise*

Evaluation skills are in short supply within governments for various reasons including inadequate resources and low status being afforded to evaluation functions. The limited use of high-quality evaluations in Australia has also constrained the emergence of a pool of experienced and non-aligned private sector analysts and institutions — such as the US's highly-regarded MDRC (until 2003, the Manpower Demonstration Research Corporation) and Mathematica (PC 2010e). A preference by many agencies for in-house control of evaluations rather than drawing on independent external expertise has exacerbated these skill deficiencies in Australia.

Independent evaluation skills are unlikely to flourish where data is held in departmental 'silos'. Gruen and Goldbloom (2008) comment that 'microsimulation specialists pour into Nordic countries because of their liberal approach towards sharing statistics'. The former director of the Melbourne Institute has emphasised the value of Australia's new national testing arrangements that will provide comparable information on school performance, before cautioning that:

Researchers may in future gain access to the underlying unit record data ... The risk is that economists may be excluded from ...such access and would thus have little incentive to learn the idiosyncrasies of unfamiliar datasets ... (Sedgwick 2009, p. 2).

Restrictions on access to data were found by the Commission to have limited the emergence of a 'critical mass' of specialist gambling researchers in Australia, whose research might otherwise have helped identify effective policies to reduce problem gambling (PC 2010b). More generally, analysts have sometimes had to laboriously extract limited, aggregated data using software to 'discover' the underlying data points from deliberately restrictive official presentations of information (Leigh and Thompson 2008; Harding 2008).

A common rationale for not sharing data — especially micro data on the experiences of particular firms, individuals or families — is the need to protect privacy. This is a legitimate, but also a surmountable, concern. Techniques to

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obscure data fields that might reveal identities are available. The ABS routinely uses such measures in making ‘confidentialised’ unit record files available.

External researchers are more likely to contribute to broadening Australia’s evaluation skills base where data are accessible, evaluations are adequately resourced and results can be published. Better coordinated jurisdictional experimentation, including shared learning on implementation and administration, also provides opportunities to build public sector evaluation skills.

## **Meeting Australia’s data needs**

Policy formulation in Australia, especially in the human capital areas that are COAG’s current focus, has been hampered by data limitations. Sometimes the necessary data have not been collected; sometimes the available data have limited applicability or are too partial for meaningful analysis; and sometimes data exist but are inaccessible. These problems are well recognised. The National Statistical Service initiative — a community of government agencies led by the ABS — is seeking to broaden the breadth of information that is supplied by statistical producers in order to better advance policy evaluation (NSS 2010).

### **Access to data improves analysis**

Overseas experience demonstrates that greater access to micro data has helped to identify which social policies work best. Often the innovative use of data has been led by academics. At the Commission roundtable on ‘strengthening evidence-based policy’ held in August 2009, participants reported favourably on revised ABS pricing for data sought by academic institutions. Previously, Australian academics had to buy individual access to confidentialised record files. They could more readily analyse policies in the United Kingdom, United States and Canada — where data are freely accessible — than they could in their own country. Participants noted that better access to data usefully broadens the ranks of analysts beyond public servants, whose analysis is often confidential to governments and who are constrained from engaging in public debates (PC 2010e).

Making data public (subject to appropriate privacy protections) allows for independent verification of official evaluation findings, enables sensitivity analyses and experimental use of new methods, and encourages additional research of direct interest to government at little cost (Chapman 2010; Smith and Sweetman 2010). Allowing more analysts to corroborate or challenge official findings in turn strengthens the quality of analysis. An added benefit is the impetus provided by input from data users on how to improve the quality and usefulness of the data sets.

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### *Longitudinal data is valuable*

Access to comprehensive databases, especially longitudinal data, that track individuals' experiences over time, can promote policy relevant research on a wide range of issues. The usefulness of longitudinal data is exemplified by New Zealand's Dunedin study, which has followed 1000 individuals born in that city in 1972–73. The study has generated over 1000 reports, including research that helped frame policy responses to antisocial behaviour in New Zealand and in other countries (Scobie 2010).

The experience thus far with the innovative Household, Income and Labour Dynamics in Australia (HILDA) survey is further testimony to the valuable insights that can be gleaned from longitudinal data. It has been used to explore issues as diverse as: changes in household wealth; consequences of long working hours; credit card debt; dietary habits and health of people in different socio-economic groups; the effect of work-related training on earnings; and interactions between health, disability and specific medical conditions (MIAESR 2009, 2010). Other datasets — such as the Longitudinal Study of Australian Children, the Longitudinal Study of Indigenous Children, and the Medicine in Australia: Balancing Employment and Life survey — offer similar prospects of improving understanding of key policy areas.

### **Unlocking 'data silos'**

As noted, evaluation skills are unlikely to flourish where data are closely held or in departmental 'silos'. Apart from reducing access to data, this can lead to wasteful and burdensome duplication. The Advisory Group on Reform of Australian Government Administration, established by the Prime Minister in 2008, has argued for breaking down 'silos' in administration and data collection:

Advances in information technology are making a stronger relationship between citizens and government possible. .... The Blueprint recommends that the Australian Government become more open and that public sector data be more widely available, consistent with privacy and secrecy laws. (AGRAGA 2010).

The Department of Finance and Deregulation has a lead role in making public sector data more accessible. A vehicle for this aspiration is Government 2.0 — based on Web 2.0 collaborative tools — which aims to inculcate a culture that government information should be accessible by default in the absence of good reasons to the contrary. The Government 2.0 Taskforce (2009, p. 47) recognised that:



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When information is released it creates new and powerful dynamics which can drive innovative use and reuse. Allowing the commercial, research and community sectors to add value to it can provide important social and community benefits.

The Taskforce recommended that, subject to privacy and confidentiality considerations, the Commonwealth make available the data it ‘owns’ and negotiate with parties to release shared or privately owned data. The Government has given its in principle agreement to this (Australian Government 2010).

The National Assessment Program for Literacy and Numeracy, together with the ‘My School’ initiative, exemplify the open provision of new bodies of micro data in education. COAG’s National Education Agreement requires the Australian Curriculum Assessment and Reporting Authority to manage school assessment data and publish ‘relevant, nationally comparable information on all schools’ to allow performance comparisons of like schools (COAG 2008c). In endorsing the framework the (then) Minister stated:

... lack of transparency both hides failure and helps us ignore it...And lack of transparency prevents us from identifying where greater effort and investment are needed. (Gillard 2008)

The notion that misunderstanding or misuse of data on school performance is a sufficient rationale for governments not to distribute that data widely is under challenge. While the misuse of data to advance particular agendas is an everyday problem with all types of data, transparency and greater familiarity with the data and their limitations, in concert with increasing examples of good evaluation, should lead to mature community management of those risks.

### **Improving data bases to achieve affordable gains**

Standard reporting formats allow mapping of different data conventions to standardised definitions, simplifying the use of such data for policy analysis. Standard Business Reporting using XBRL (eXtensible Business Reporting Language) has been implemented for financial reporting in Australia leading to better, cheaper data and large savings in compliance costs.

Linking data bases provides a major opportunity to use existing data collections more effectively. For example:

- access to confidentialised unit records now means that taxation policy reviews need no longer be confined to assessing impacts on the ‘average Australian’ but through microsimulation modelling can now examine distributional impacts on finely graduated cohorts incorporating income, age, gender and marital status

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- data matching in relation to social security benefits is a critical compliance tool akin to the Australian Taxation Office's access to combined records which allows it to assess tax declarations against expenditures (such as vehicle registration) and income sources (such as interest) to reduce tax evasion.

Generally, data linking opportunities have been achieved through policy collaborations and a desire to ensure program integrity through robust compliance mechanisms. However, the potential benefits for linked datasets extend beyond this.

An ability to combine data sets can deliver a boost to the evidence base by providing a richer source of information for research and evaluation. For example, New Zealand's Inland Revenue Department receives monthly returns filed by firms, listing all paid employees' earnings and tax. This is linked to the firm level data in the Longitudinal Business Frame, and also with benefit data from the Ministry of Social Development. The linked databases have enabled many policy issues to be studied, including: the effect of minimum wages on teenage employment; employment rates of former benefit recipients; labour productivity; implications of changes in workforce composition over the business cycle for labour productivity, job mobility and earnings dynamics (Scobie 2010, Stillman and Hyslop 2006).

Ultimately, it may be feasible to combine datasets to provide analysts with insights into people's lives over the lifecycle, from early childhood to retirement. Such information could constitute a powerful tool to understand why policies work or fail for particular groups of individuals. This is especially important in government policy areas where the discipline of competitive processes to drive reform is absent.

## **Planning for relevant data collections**

Better data is more likely to be assembled at lower cost and with greatest benefit if collection of that data is part of a strategy focussed on policy needs. For example, in its recent inquiry report, the Commission found gambling policies needed to rest on clearer thinking about the nature of the problems gambling can cause, and evaluation of the relative net benefits of different policy options. It identified better ways of coordinating data and governing quality research (PC 2010b).

Participants in the Commission's study of the 'not-for-profit sector' identified benefits to the sector and to governments from a well-conceived framework for impact measurement, including achieving better public policy outcomes for funding that is directed through the sector (PC 2010d). The report recommended a structure by which the impacts of the sector could be measured and the most useful data on the sector could be built and used (box 1.3).

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**Box 1.3 Improving the evidence base for the ‘not-for-profit sector’**

A Commission study into the not-for-profit (NFP) sector found many NFP’s struggle to meet government reporting and accountability requirements, which are often costly and not appropriate for all NFPs. The study identified paths to improve the evidence base on NFPs, including proportionate reporting requirements, more regular publication of the ABS’s satellite accounts on the sector, and better data comparability across NFPs.

The Commission recommended that governments should:

- commit to basing reporting and evaluation requirements in service delivery contracts on a common measurement framework
- ensure that information generated through performance evaluations are returned to service providers to allow organisations to benchmark their performance
- establish a centre to promote, lodge and access ‘best practice’ evaluation and to support future ‘meta analysis’ of evaluations as they accumulate (PC 2010d).

### **Drawing on evidence from regulation benchmarking**

Regulation reform is a fundamental means of achieving improved economic performance. A combination of good process and sound evidence and analysis can help drive improvements. Information collected by the Commission from its annual regulation benchmarking and regulatory burden studies has identified costly and unnecessary differences across Australian governments in regulatory practices, and inefficiencies in regulatory approaches.

This work has highlighted the importance of studying not only the formal regulations in place, but also how they are administered in practice. The work rests on the voluntary inputs of affected citizens and organisations, collected through consultation, submissions and surveys. The provision of such information has:

- helped signal emerging pressure points for reform, such as in aged care
- identified differences in enforcement practices and risk management — benchmarking of Australian and New Zealand food safety regulation found that Australia’s regulatory system for exports relies less on electronic processing that could reduce compliance costs and is less able to accommodate outcome-based standards in the domestic food safety system than New Zealand’s (PC 2009i).
- helped sustain progress and support for improvements such as in occupational health and safety regulations, where benchmarking state, territory and Commonwealth practices pointed to remaining problems in some jurisdictions that would be removed through implementing the Intergovernmental Agreement for Regulatory and Operational Reform in OHS (PC 2010g).

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While the work to date has helped highlight areas requiring reform, the need for agreement across many jurisdictions can make progress difficult.

## **An evidence-based approach requires resources**

Data collection and research can consume significant resources and time if done well. In a budget constrained environment, governments often perceive such activities to be expendable relative to their ‘coalface’ functions. However, such savings can prove illusory when weighed against the potentially greater and enduring costs of implementing policies that fail or that require substantial revision. Moreover, data acquisition and evaluation may be required later for audits and reporting obligations. Anticipating these needs and collecting data earlier for policy design and refinement can be worthwhile. Compliance costs from data collection can also be minimised if the principles of Standard Business Reporting, now used in the financial reporting sphere in Australia, can be applied more broadly. Those principles include:

- starting any data collection process by considering first what use can be made of data that business collects for its own purposes
- ensuring that, where possible, data is ‘collected once — used often’.

Governments not only need to commit to better resourcing of evaluations, but research bureaux need to be able to operate with sufficient autonomy to pursue solid analysis of impacts under more than one policy option. Where evaluation units do exist within policy departments, they are sometimes constrained in the frankness of their (public) evaluations.

Evaluations by academics, independent consultants and private ‘think tanks’ potentially offer a remedy, but their utilisation in Australia has been relatively limited (PC 2010e). The Secretary of the Department of Prime Minister and Cabinet has recently stressed that the public service ‘must work with people from the private and community sectors, think tanks, academics, stakeholders and members of the public. And we need to carve out time for thinkers within the APS to enable them to do long-term, creative work’ (Moran 2009).

One example of such collaboration is the venture between the University of Melbourne and the Victorian Government that resulted in a new experimental economics laboratory in late 2007. The laboratory promotes experimental methods in economic research, assisting policy makers to understand how people’s decisions are influenced in various situations and to design innovative policy processes, including iterative refinements before proceeding to field trials (see also PC 2008n).

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## The value of trials

The urgency that sometimes attends policy development and implementation can be self-defeating. Indeed, for national programs, the most expeditious and cost-effective path will often require evaluated trials. The cost of policy ‘misfires’ for a national rollout can be large. Relatively small investments in trialling policy reforms, sequentially rolling out policies to facilitate progressive improvement, and collecting baseline and other data can assist policy design and implementation, without adding to overall implementation times. There have been some positive recent developments.

- On 1 July 2010 the Australian Government commenced a 12 month trial for a new drought reform package in Western Australia, in partnership with that government. The \$23 million pilot will test new measures to assist farmers to prepare for future challenges. After 12 months it will be assessed with a view to developing a new approach to be rolled out nationally.<sup>1</sup>
- As part of the Smarter Schools partnership agreements, Victoria will trial school- and teacher-based rewards over 2010–13. The ‘Teacher Rewards model’, which provides annual bonuses for top performing teachers, involves piloting ‘two teacher pay bonus models at up to 75 selected Victorian government primary and secondary schools’ (Victorian Government 2010, Pike 2009).
- The Australian Government aims to improve student outcomes by giving principals and school communities more control over how schools are run. Sequential roll-out for 1000 schools will commence over 2012–13. National rollout for most schools is to occur by 2018 ‘informed by an iterative evaluation of the first 1000 schools ...’ (Gillard 2010).

Making the most of these pilot programs will depend on the quality and transparency of evaluations, and subsequent policy actions that have proper regard for the results and lessons learned from the pilots.

## Even simple methodologies can be revealing

Good evidence on how policies are working does not always necessitate extensive data, sophisticated quantitative techniques or the so-called ‘gold standard’ of randomised control trials. Often, qualitative analysis using simpler methodologies

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<sup>1</sup> The (then) Minister for Agriculture, Fisheries and Forestry stated that ‘there’ll be challenges that we haven’t fully anticipated. ... I make no presumption that what we announced today will work perfectly. We want to ... work it through in the best possible way.’ (Burke 2010).

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can shed light on policy performance. Disclosing information can, of itself, promote positive outcomes.

In the late 1980s, the Department of Health in New York began collecting information on every hospital patient receiving heart bypass surgery in the state. The publicly reported information identified hospitals and the patient's outcome. Citing this case, the Treasurer contended:

... between 1989 and 1992, mortality rates for cardiac operations in New York State hospitals declined by over 40 per cent state-wide ... It happened because hospitals and surgeons didn't want to be labelled as the worst in the State and the public reporting led to improvements to their cardiac surgery programs. (Swan 2008).

Other examples from the health field achieved through collating basic data and interpreting available information include the substantial reductions in deaths from Sudden Infant Death Syndrome (SIDS) and reductions in revision surgery for joint replacements (box 1.4).

#### **Box 1.4 Better health outcomes through general analysis**

The recommendations to parents on how to minimise the risk of SIDS have reduced Australian deaths from SIDS by more than 80 per cent. This illustrates a successful intervention that rested on a mixture of epidemiological studies, pathology studies and case studies, rather than on quasi-experimental methodologies. Rogers (2010) provides an outline of tools that may be appropriate to evaluating policy issues of differing degrees of complexity. Examples include 'general elimination methodology' and 'multiple lines and levels of evidence'.

The risk of revision surgery following hip and knee replacements in Australia (20-25 per cent) is comparable to most other countries, but higher than in Sweden (10 per cent), owing to the impact of that country's long-standing hip and knee registries. An Australian National Joint Replacement Registry (NJRR), which became operational in 2002, collects data on all joint replacements and the incidence of revision surgery. One reason for Australia's higher failure rate was the use of multiple types of prostheses. The NJRR data showed that newer, generally more expensive, prostheses did not always deliver better outcomes (Graves and Wells 2006). The NJRR provides evidence which surgeons can use to reduce the risk of surgical revision. By 2006, this information had reduced joint replacement revision operations by 1200 annually, benefiting patients and saving between \$16-\$30 million per annum (ACHR 2006).

*Sources:* Rogers (2010); Graves and Wells (2006); ACHR 2006.

The Commission also has long used qualitative analysis and simpler methodologies where appropriate when the available evidence base cannot support more advanced analytical techniques. For example, industry assistance reviews have traditionally

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drawn on partial measures such as estimates of effective rates of assistance and consumer tax equivalents. Other examples include the Commission’s work on:

- the implications for Australia of firms locating offshore — 150 mining, manufacturing and service firms were surveyed to determine the domestic policy influences considered important to their decision to invest offshore (IC 1996).
- the impact of an outbreak of foot and mouth disease — outbreak scenarios were assessed by developing a cash-flow model to estimate trade and production effects, supplemented by general equilibrium modelling to estimate economy-wide impacts (PC 2002c)
- the market for retail tenancy leases — like many inquiries, this proceeded on the basis of public hearings, submissions, industry data and lessons from jurisdictional variations in lease registration and dispute resolution (PC 2008o).

### **Complex policy questions can benefit from sophisticated analysis**

Many complex social and economic issues can only be addressed properly using analytical techniques that disentangle various potential influences. Does the New York hospitals experience (above), for example, prove that information provision led to competition between hospitals that saved lives, or did new medical technologies or changes in case mix play a part? Some evidence comes from the United Kingdom, where in 2006, the Government introduced a policy to give patients a choice between hospitals as well as information on the quality and timeliness of care. Prices remained set centrally. Gaynor et al. (2010), using a quasi-experimental research design, found that informed patient choice saved lives without raising costs. Their research design allowed them to rule out that the improvements were driven by other factors such as hospital case mix differences or patients’ socio-economic status.

Establishing the *causal* effects of government programs or policies can be very difficult in areas such as health, aged care, education, and Indigenous disadvantage. Investigation in such areas would generally benefit from better data and evaluative impact assessment methodologies that: identify the counterfactual against which a policy’s impact is being addressed; address problems of multiple causation; and avoid biases that can bedevil some simpler analytical approaches.

Analytical methodologies have emerged in recent decades that allow analysis of social and economic policies to separate the impact of a particular policy from other influences. There is growing experience with social and economic applications of randomised controlled trials, and of econometric methods for ‘quasi-experiments’ such as instrumental variable approaches, differences-in-differences analysis and

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regression discontinuity (Smith and Sweetman 2010; Leigh 2010; Angrist and Pischke 2010; Imbens and Wooldridge 2009).

The benefits of applying such analytical techniques are exemplified by some notable international successes in high quality evidence-based evaluations of complex social policy reforms (box 1.5). These include:

- the ‘Progresa’ welfare reform in Mexico in the 1990s (renamed ‘Oportunidades’ in 2002) which used a large trial followed by an evaluation prior to wide scale program roll-out. ‘Progresa is why 30 countries worldwide have conditional cash transfer programs’ (Gertler, in Angrist and Pischke 2010, p. 4). Indeed, Progresa influenced Australia’s current remote communities conditional transfer trial which involves obligations on recipients to, among other things, ensure that children attend school and are kept safe from harm (CYI 2007, 2010).
- welfare reform in the United States in 1988 and 1996, the foundations for which were built on extensive earlier state-level experimentation, which analysed the impacts of financial incentives, program assistance, and compliance strategies through measured outcomes up to five years after the program intervention.

Microsimulation modelling has been used in Australia for some time (for example, the National Centre for Social and Economic Modelling’s suite of models and Treasury’s retirement income models). Nevertheless, Australia has been a limited user of newer analytical advances (Leigh 2010). This is notwithstanding that the capacity to support the application of sophisticated methodologies has improved considerably owing to technological advances.

- Data capture techniques have improved. This is exemplified in wholesale and retail trade where barcodes and sensors enable vast data capture in real time (Johnston et al. 2000). However, data collection for social programs remains resource intensive owing to the complexity of programs, the multiplicity of transactions and the need to match data to socio-economic information.
- Data storage is now cheaper, permitting large collections of microdata of individual, household or firms to be accessed. For example, Amazon.com’s two largest databases are said to hold 42 000 gigabytes of data; storage that would have cost over \$30 billion twenty years ago (Gruen and Goldbloom 2008)
- Computing power has been vastly enhanced, enabling analysis of large databases and linkages among databases. Modelling the impact of rising carbon prices on the Australian economy over the next 100 years now takes around 10 hours on a desktop computer, whereas two decades ago such computations would have taken over a year (Gruen and Goldbloom 2008).



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## Box 1.5 Using evidence to tackle complex social policy reforms

### Mexico's Oportunidades (Progresa) program

In 1995 Finance Ministry officials proposed replacing in kind distributions of milk and tortillas, and subsidised bread and tortillas, with targeted cash transfers to mothers contingent on household members attending health clinics and children attending school. The ambition was for one comprehensive transfer program for poor households to improve children's education, health, and nutrition. The proposition was met with questions about its efficacy: Would cash transfers lead to more spending on tobacco and alcohol? Would giving cash to mothers lead to family disruption and violence? Would making cash transfers contingent on outcomes be operationally feasible?

To answer these questions a pilot involving 31 000 households was implemented. The subsequent evaluation of the controlled experiment was based on advanced statistical techniques and it found that cash transfers did not promote inappropriate use of funds — most households valued the link to health services — or family disruption. However, it highlighted that a full scale rollout would require revised targeting and better data collection. Moreover, while the pilot showed that a large scale program could yield substantial benefits with low risk, it also illuminated government agencies' unwillingness to coordinate a large-scale operation.

Lessons from the pilot enabled the program to be tailored to address these operational issues. Further public evaluation demonstrated the program's success which endowed it with popular support, insulating it from attack in election campaigns and a subsequent change of government (Levy 2006).

### The role of state trials in the evolution of welfare reforms in the United States

The foundation of US social welfare reforms lay in a period of state-level experimentation beginning in the 1970s and spread over about 15 years in some 40 states. A federal law allowed experimentation and states conducted trials of ways to increase workforce participation by those on welfare, which led to a large body of high-quality evaluations to identify the most effective approaches.

These trials also gave state bureaucracies the experience and confidence to administer larger scale reforms. Moreover, successful state experiments created a constituency of state and federal politicians prepared to support national reform: the Federal government was not trying to persuade or 'pay' states to make reforms they were not otherwise motivated to make (Haskins 2010).

*Sources:* Levy (2006); Haskins (2010); PC (2010f).

Such developments support the use of more powerful analytical methodologies. For example, the Commission applied experimental 'multivariate analysis' — a statistical technique in which two or more variables are analysed simultaneously — to assess the relative efficiency of public and private hospitals (PC 2009d).

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Supplementary modelling drawing on additional years of data found that hospitals are operating around 10 per cent below best practice (PC 2010h).

Importantly, the stock of evidence-based evaluations from overseas can sometimes provide lessons for Australian policy analysis, provided appropriate allowance is made for country-specific differences. Similarly, there are opportunities to draw on experiences in other policy areas where there is a prospect of some transferability of policy action.

## **Institutional support for better analysis**

Good policy processes and effective institutional arrangements can support quality information gathering and analysis, and help ensure they bring about policy improvements. But there are many reasons why this ideal is often not met. Short electoral cycles militate against investment in quality evaluation and towards limited evaluations designed to show short-term policy pay-offs. There are also political economy forces at play. In federations, the costs of collecting data and evaluating policy in a state or territory usually fall only on that jurisdiction. While most of the benefits and the political risks of identifying poorly-performing policies also accrue to that jurisdiction, some of the benefits of learning from policy successes and failures can accrue to every jurisdiction and all Australians.

This tension between the internal costs and external benefits of evaluation has been recognised as having caused an ‘evaluation gap’ in analysis of international aid effectiveness (EGWG 2006). There are several international innovations that attempt to capture the ‘external benefits’ and incorporate them in the decisions to finance, undertake and share the results of good data and evaluation. Most of these involve types of ‘evaluation club’, typically with commitments to: principles of rigorous, transparent evaluation; sharing lessons learned; improving the standard of evaluation; and sometimes, helping to fund high-quality evaluations (box 1.6).

Support for high quality evaluations such as those provided by the US Office of Management and Budget or the Coalition for Evidence-Based Policy has not emerged in Australia. There are some ‘policy hubs’ operating at various tertiary institutions (for example, the Melbourne Institute) and evaluation practitioners share their insights in groups such as the Australasian Evaluation Society, whose 1000 members include evaluation practitioners, managers, teachers and students of evaluation (AES 2010). The Society promotes professional standards of evaluation, but works more with the methodology of good evaluation, than with the policy processes of funding and using evidence well. But there is scope to do more.

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**Box 1.6 International approaches to support good analysis**

The United States Office of Management and Budget allocates funding to certain programs with results proven by high-quality evaluations — described by its former director as ‘initiatives with evaluation built into their DNA’. It gives initial funding to other programs with weaker evidence of success, with future funds conditional on more robust evidence (Orszag 2009).

The United States Coalition for Evidence-Based Policy seeks to propagate the principles of robust evaluation by funding rigorous studies — particularly randomised controlled trials — to support social interventions that produce sizeable and sustained benefits. It provides information on ‘what works’ in social policy and operates a ‘help desk’ for federal agencies to advance rigorous evaluation (CEBP 2010).

In the field of international development assistance, the International Initiative for Impact Evaluation, ‘3ie’, comprises government officials from developing countries with an interest in effectiveness, bilateral and multilateral agencies, non-government organisations, and foundations or corporations. Membership entails a commitment to funding evaluations that meet 3ie’s Principles for Impact Evaluation (IIIE 2010).

Similarly, the Evaluation Cooperation Group comprises the heads of evaluation of the multilateral development banks, the Director of Independent Evaluation at the International Monetary Fund, and observers. As well as developing evaluation practices among its own members, it aims to develop evaluation capacity in the borrowing country members of the multilateral development banks (ECG 2010).

*Sources:* Orszag (2009); CEBP (2010); IIIE (2010); ECG (2010).

## **The Council of Australian Governments is a key forum**

The key institutional support mechanisms that could be said to address the ‘evaluation gap’ in Australia arise through federally-based machinery such as Ministerial councils, steering committees — such as for the review of government services provision — and intergovernmental agreements.

The NCP involved governments signing intergovernmental agreements to which rewards for achieving particular reform milestones were attached. This approach continues in the COAG reform agenda, which uses a blend of cooperation and competition through National Partnership Agreements (NPAs), with ‘inducements’ from the Australian Government through associated National Partnership payments (NPPs) and specific purpose payments.

Detailed policy design remains the province of the states and territories, but working groups devise frameworks of indicators to illuminate progress towards outcomes, objectives and targets. The COAG Reform Council (CRC) publishes the

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output and outcome performance indicators to highlight differences among states and territories and facilitate performance improvements (COAG 2008h, 2010b). This provides potential to identify jurisdictions with higher relative performance based on good practice. This is very important for the human capital arena where government spending is substantial, as are the policy challenges (box 1.7).

**Box 1.7 Human capital reform — its significance and complexity**

Commonwealth, state and territory government spending on education, health, and social security and welfare is substantial — it totals over 60 per cent of all general government expenditure. Spending more effectively in these areas could pay big dividends by reducing waste and achieving superior outcomes for given expenditures.

Getting the best value from human capital reforms will require strong evidence because these areas are complex and politically sensitive. There are multiple causes for observed outcomes, and alternative pathways to address those outcomes that are seen as sub-optimal. For example, childhood obesity may be a significant risk factor for type 2 diabetes and cardiovascular disease in later life, but there are genetic and lifestyle influences too. Individual and family choices can also thwart policy intentions. Choosing the most efficient mix of interventions that is most likely to reduce later disease requires good evidence.

Moreover, human capital reforms may not be well suited to 'one size fits all' solutions. For example, nearly one third of Indigenous children in Year 3 have skills below the national minimum standard, compared to 6 per cent of non-Indigenous children (CRC 2010). But achieving better educational outcomes for Indigenous children will need to address multiple causes of disadvantage. Similarly, while homelessness can be approached from the perspectives of housing shortages and poverty, mental illness is a strong contributor.

*Sources:* ABS (2010); PC (2006b); CRC (2010).

The performance-linked inducements through NPPs and the consequential monitoring of performance aim to create incentives for jurisdictions to apply themselves to achieving COAG's national reform goals. Ideally, this should encourage an evidence-based approach in order for states and territories to determine what works. For example, under the renegotiated National Partnership on remote Indigenous housing (COAG 2009e), payments for 2010-11 and 2011-12 were recently increased for Western Australia and decreased for Queensland and South Australia to reflect their relative performance in meeting 2009-10 targets for completing new, and refurbishing existing, houses (Macklin 2010b).

That said, while rewarding better relative performance can promote policy learning across the federation, this need not mean that optimal, or even cost-effective, policies will end up being pursued — 'less bad' policy initiatives can be rewarded

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and, through this, even locked-in as the national best practice norm. Moreover, the indicators approach presumes causality from policy inputs to the exclusion of other, possibly significant, factors. They also may include ‘noise’ in the form of specific geographic or jurisdictional contextual differences that make benchmarking challenging. These are reasons why, for example, the Commission complemented the available partial indicators with multivariate analysis in its study into public and private hospitals (PC 2009d, 2010h).

This challenge of assessing program performance and effectiveness has been recognised by COAG, which has charged the Commission with reporting every two to three years on the impacts and benefits of COAG’s reform agenda, to complement the CRC’s monitoring role. The Commission is to assess the economic impacts and benefits of realised COAG reforms, whether Australia’s reform potential is being achieved, and the opportunities for improvement.

With COAG processes now identifying and rewarding successful policy performance through the NPPs, Australia is well placed to trial some of the collaborative approaches discussed above to strengthen the evaluation of policy innovation. NPPs offer the opportunity to apply stronger analytical tools to finding what policies work best and in which circumstances, thereby avoiding resources being committed to policy changes that may be sub-optimal.

## **Further progress**

As noted, during the ‘reform era’ of the 1980s and 1990s, Australia earned a reputation internationally for a policy approach based on independent advice, interrogation of evidence, consultation, and building constituencies to support structural reforms (OECD 2005). This paid dividends, with those reforms lifting productivity and living standards substantially, reversing a secular decline in Australia’s international ranking.

The need for evidence-based public policy remains as important today. Evidence and good process can secure better regulation, more efficient infrastructure investments and, critically, more cost-effective social policy. Because human capital policies inevitably must deal with individuals with differing socio-economic, demographic, regional and cultural characteristics, they cannot be hastily conceived. Basing public policy on sketchy data or quick surveys (or worse, focus groups) that may involve people recalling past behaviours or predicting their responses is fraught. Moreover, the technological and methodological capacities to progress effective evidence-based policy have advanced considerably.

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A number of countries have led the way in addressing these problems. They include not only advanced economies such as the United States, with a rich history of quasi experimentation to test the efficacy of social programs, but also middle-income countries such as Mexico. Australia lags in such endeavours.

### **An action agenda for evidence-based policy**

There are several priority actions needed to develop the evidence base, support better analysis of evidence, and help build or sustain community support for necessary policy reforms. There is a particular need to:

- encourage a culture of open access to affordable data (subject to confidentiality protections) for government users, academics and other researchers
- promote early planning to ensure that data collection is relevant and evaluations can reliably assess policy impacts relative to ‘baselines’
- facilitate standardisation of reporting formats and greater linking of datasets to enhance the available evidence base
- ensure research agencies and evaluation units within government departments have sufficient time and resources to undertake or commission quality research
- entrench requirements for public consultation — not only to gather evidence, but also to test competing views and expose draft policy proposals to scrutiny
- ensure that review processes are independent and transparent — especially on contentious matters where judgment is called for
- encourage policy trials and experiments that involve rigorous assessments, rather than relying on the anecdotal experiences of selected stakeholders
- investigate iterative policy implementation approaches where there is significant uncertainty or large gaps in the evidence
- pursue institutional experiments such as ‘evaluation clubs’ to build analytical and evaluative skills, fund proper evaluations and share results
- ensure that the COAG model encourages ‘best’, rather than merely ‘better’, practice by linking some funding to requirements for jurisdictions to have ex ante evaluation strategies and develop policy evaluation skills.

Such actions will obviously involve a greater call on time and resources, and may run up against budget constraints and a political need for early action. But given that the cost of policy ‘misfires’ can be substantial and enduring, both economically and politically, the most cost-effective and sustainable path may ultimately rest on a slower, but better informed, start.

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## 2 Review of Commission activities and performance

### **Some highlights from 2009-10**

- published major reports on a range of topics including gambling, executive remuneration, the contribution of the not-for-profit sector, Australia's anti-dumping system, the performance of public and private hospitals, water recovery in the Murray Darling Basin and wheat export marketing
- completed further stages of the review of regulatory burdens on business and the benchmarking study on business regulation
- released the 2009 report on Overcoming Indigenous Disadvantage in conjunction with an invited presentation to COAG on the findings of the report
- received a government request for the Commission to report, every two to three years, on the economic impacts and benefits of COAG's agreed reform agenda
- hosted a roundtable conference on evidence-based policy making
- delivered further tranches of reporting on National Agreement performance indicators for the COAG Reform Council
- completed a range of supporting research, including submissions to other reviews, to inform policy development and promote debate on productivity growth, the National Broadband Network, urban water, agricultural trade policies and the effects of education and health on wages and productivity

### **Areas of focus for 2010-11**

- complete current inquiries and government-commissioned research on disability care and support, aged care, urban water reform, the vocational education and training workforce, trade agreements, rural research and development, and a framework for assessing the impacts and benefits of COAG's reform agenda
- continue assessment of regulatory burdens on business and the inter-jurisdictional benchmarking of business regulation
- provide ongoing secretariat assistance to the Steering Committee for the Review of Government Service Provision and the Indigenous Expenditure Report Steering Committee, and respond to outcomes arising from the review of ROGS
- prepare for new role in undertaking industry reviews associated with the Government's Renewable Energy Target
- plan for, and further develop, capabilities to meet future work demands on economic, social and environmental 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.

The Productivity Commission was 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 1998a).

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:

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

The breadth and volume of the Commission's work are indicated by the reports published in 2009-10 (box 2.1). They included government-commissioned inquiries and studies on such diverse topics as executive remuneration, gambling, wheat marketing, the contribution of the not-for-profit sector, the performance of public and private hospital systems, and mechanisms to recover water in the Murray Darling basin.



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**Box 2.1 Commission publications in 2009-10*****Public inquiries (draft reports)***

Australia's Anti-dumping and Countervailing System	Gambling
Wheat Export Marketing Arrangements	Executive Remuneration in Australia

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

Australia's Anti-dumping and Countervailing System	Gambling
Executive Remuneration in Australia	

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

Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety	Market Mechanisms for Recovering Water in the Murray-Darling Basin
Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety	Contribution of the Not-for-Profit Sector
Public and Private Hospitals	Annual Review of Regulatory Burdens on Business — Business and Consumer Services

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

Restrictions on the Parallel Importation of Books	Annual Review of Regulatory Burdens on Business — Social and Economic Infrastructure Services
Public and Private Hospitals	Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety
Contribution of the Not-for-Profit Sector	Market Mechanisms for Recovering Water in the Murray-Darling Basin
Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety	

***Chairman's published speeches***

An Economy-wide View: Speeches on Structural Reform

***Annual report suite of publications***

Annual Report 2008-09	Trade & Assistance Review 2008-09
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(continued next page)

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**Box 2.1 (continued)**

***Performance reporting***

Report on Government Services 2010

Report on Government Services 2010:  
Indigenous compendium

National Agreement performance  
information 2008-09: National Healthcare  
Agreement

National Agreement performance  
information 2008-09: National Affordable  
Housing Agreement

National Agreement performance  
information 2008-09: National Disability  
Agreement

National Agreement performance  
information 2008-09: National Indigenous  
Reform Agreement

National Agreement performance  
information 2009: National Agreement for  
Skills and Workforce Development

National Agreement performance  
information 2009: National Education  
Agreement

Data gaps in education and training  
National Agreement reports: 2008

Data gaps in National Agreement reports:  
2008 and 2008-09

Overcoming Indigenous Disadvantage:  
Key Indicators 2009

***Submissions***

Submission to the House of Representatives Standing Committee on Economics:  
Inquiry into Raising the Level of Productivity Growth in Australia

Submission to the Senate Select Committee on the National Broadband Network

***Conference/workshop proceedings***

Strengthening Evidence-based Policy in the Australian Federation

***2009 Richard Snape Lecture***

China's Policy Responses to the Global  
Financial Crisis (Professor Yu Yongding)

***Staff working papers***

Modelling the Effects of the EU Common  
Agricultural Policy

The Effects of Education and Health on  
Wages and Productivity

Developing a Partial Equilibrium Model of  
an Urban Water System

***Supplement to research report***

Public and Private Hospitals: Multivariate  
Analysis

An emphasis on regulatory themes in the Commission's work program continued during 2009-10, with the completion of further stages of the review of regulatory burdens on business and the benchmarking study on business regulation.

The Commission also continued to assist Australia's jurisdictions and COAG through a mix of standing research responsibilities and specific projects. In the

current year, for example, standing research activities included cross-jurisdictional reporting on the performance of government services and further reporting on indicators of Indigenous disadvantage. Specific projects undertaken to assist policy development across jurisdictions included the inquiry into gambling, which followed a request by COAG in July 2008 for the Commission to update its earlier report, and studies on benchmarking business regulation in the areas of food safety and occupational health and safety to assist the work of the COAG Business Regulation and Competition Working Group. The Commission also provided secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of reporting annual performance information on six National Agreements to the COAG Reform Council, and provided secretariat, research and report preparation services to the Indigenous Expenditure Steering Committee in respect of the annual report on expenditure on services to Indigenous Australians.

The diversity of topics in the Commission’s work program also appears set to continue. For example, current work to be completed by the Commission by early 2011 includes inquiries and studies on aged care, disability care and support, the impacts and benefits of COAG reforms, bilateral and regional trade agreements and the vocational education and training workforce.

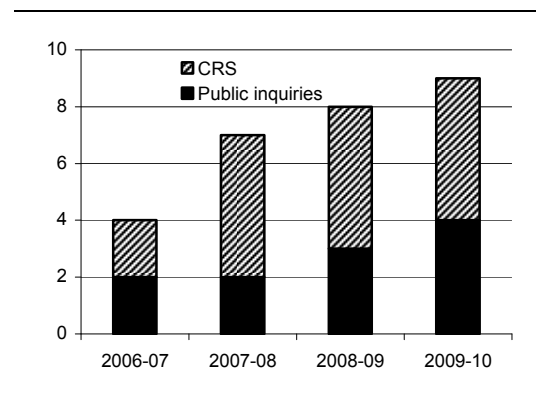
## Year in review

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 main work streams. The principal developments in these activities during 2009-10 are outlined below.

### Public inquiries and other commissioned studies

The Commission had seven public inquiries and ten commissioned research studies underway at some time during 2009-10. In addition to completing seven references from the previous year, it received ten new projects, maintaining the breadth of policy coverage evident in recent years (figure 2.1).

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



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The Commission completed three inquiries commenced in the previous financial year: on gambling, executive remuneration and anti-dumping.

Four new inquiries commenced in 2009-10.

- An inquiry that commenced in September 2009 to examine the operation and effectiveness of the current wheat export marketing arrangements. In conducting the inquiry the Commission has been asked to consider the effects of new marketing arrangements on relevant stakeholders and the costs and benefits that the new arrangements deliver. The Commission is also required to provide comment on those aspects of the new arrangements that are working effectively and identify those that require change.
- The Commission's inquiry into rural research and development corporations started in February 2010. It will include an examination of a range of issues, including the economic and policy rationale for Commonwealth Government investment in rural R&D; the appropriate level of, and balance between public and private investment in rural R&D; and the effectiveness of the current rural development corporation (RDC) model.
- The inquiry into aged care commenced in April 2010. As part of the inquiry, the Commission is to provide a comprehensive consideration of social, clinical and institutional aspects of aged care in Australia, and to develop regulatory and funding options for residential and community aged care.
- In February 2010, the Assistant Treasurer asked the Commission to conduct an inquiry into a national disability care and support scheme in Australia. The inquiry, which began in April 2010, will examine a range of options and approaches for the provision of long-term care and support for people with severe or profound disability. This includes an examination of a social insurance model on a no-fault basis, and other options that provide incentives to focus investment on early intervention.

During 2009-10 the Commission finalised five government-commissioned research studies commenced in the previous year:

- a study on the restrictions on the parallel importation of books into Australia that commenced in November 2008 and was released in final form in July 2009
- the third stage of the review of regulatory burdens on business, completed in September 2009
- the third stage of the benchmarking study on business regulation, which released reports on Food Safety in December 2009 and Occupational Health and Safety in March 2010

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- a study of the contribution of the not-for-profit sector, that was finalised in January 2010
  - a commissioned study on the performance of public and private hospital systems that was released in December 2009, with a supplement providing further modelling results released in May 2010.

It also received a request for, and completed, a research study on mechanisms to purchase water entitlements.

The Commission commenced a further five new research studies during the year which are ongoing: further stages of its regulation benchmarking and regulatory burdens studies; a study of bilateral and regional trade agreements; the first stage of a series of studies on the education and training workforce; and a review of the costs and benefits of the COAG reform agenda.

Further information on public inquiries and commissioned research studies undertaken by the Commission during 2009-10 and government responses to reports is provided in appendices C and D.

## **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 three major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage report; and collating performance data under the Intergovernmental Agreement on Federal Financial Relations for the COAG Reform Council.

### ***Report on Government Services***

The *Report on Government Services 2010* was the fifteenth 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 2010 Report collectively account for approximately \$136 billion of government recurrent expenditure, equivalent to 13.1 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.

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The Review continues to evolve. The 2010 Report included new indicators for vocational education and training, aged care services, and protection and support services, and improved reporting on aspects of children's services, school education, corrective services, emergency management, public hospitals, primary and community health, health management issues, services for people with disability, and housing.

In November 2008, COAG agreed to a review of the Report on Government Services. COAG endorsed the review's recommendations at its 7 December 2009 meeting, including that 'the Steering Committee's central role in collecting and publishing data on government service delivery, and the need for timely access to data held by data providers, should be stated in [a] new terms of reference and mandated by COAG' (COAG 2009d, recommendation 20). COAG endorsed new terms of reference in April 2010 that enhance the authority and strategic nature of the Steering Committee.

### *Overcoming Indigenous Disadvantage: Key Indicators*

The *Overcoming Indigenous Disadvantage: Key Indicators* series of reports was commissioned by COAG in April 2002, 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.

Four editions of the report have been released, in November 2003, July 2005, June 2007 and July 2009. The then Prime Minister acknowledged the importance of the report when he issued revised terms of reference in March 2009:

Since it was first established in 2003, the OID report has established itself as a source of high quality information on the progress being made in addressing Indigenous disadvantage across a range of key indicators. The OID report has been used by Governments and the broader community to understand the nature of Indigenous disadvantage and as a result has helped inform the development of policies to address Indigenous disadvantage (Rudd 2009).

The most recent edition was released in conjunction with a COAG meeting in Darwin that had a focus on Indigenous policy. The report showed that many Indigenous people have shared in Australia's recent economic prosperity, with increases in employment, incomes and home ownership. 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

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or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

### *National Agreement reporting*

In November 2008, COAG endorsed a new Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, six National Agreements clarify the respective roles and responsibilities of the Commonwealth and the states and territories in the delivery of services. Each Agreement contains the objectives, outcomes, outputs and performance indicators for each sector. The performance of all governments in achieving mutually agreed outcomes and benchmarks specified in each National Agreement will be monitored and assessed by the COAG Reform Council (CRC).

COAG has requested that the Steering Committee provide to the CRC the agreed performance information for the CRC to undertake its assessment, analytical and reporting responsibilities. The IGA states that the Steering Committee's role relates to 'overall responsibility for collating the necessary performance data' for National Agreements. The IGA further specifies that 'the Steering Committee will comment on the quality of the performance indicator data using quality statements prepared by collection agencies'. The COAG Reform Council has also requested the Steering Committee to collate data for selected National Partnership Agreements to assist it in its role in assessing achievement against reward benchmarks. In addition, the Chair of the Heads of Treasuries Committee on Federal Financial Relations (HoTs Committee) has requested the Steering Committee to bring together information on data gaps in the performance reporting framework, and report back to the HoTs Committee.

Two 'tranches' of reports from the Steering Committee to the CRC are required:

- by end-June on the education and training sector (National Education Agreement and National Agreement for Skills and Workforce Development)
- by end-December on the health, housing, disability and Indigenous reform sectors (remaining four National Agreements).

The second cycle of the first tranche of reporting, delivered to the COAG Reform Council on 30 June 2010, included:

- specifications for all performance indicators in the National Education Agreement and the National Agreement for Skills and Workforce Development
- specifications for education and training performance indicators in the National Indigenous Reform Agreement

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- data for the 2009 calendar year (where 2009 data were not available, the most recent reporting year was included) and baseline year of 2008
  - comment on data quality for each performance indicator (based on the data quality statements provided by the collection agencies), and an overall comment on the key issues in reporting against the performance indicators
  - additional contextual information (including outputs listed in the two National Agreements for education and training).

The second tranche of reporting, delivered to the COAG Reform Council on 24 December 2009, included:

- specifications for all performance indicators in the National Healthcare Agreement, National Affordable Housing Agreement, National Disability Agreement and the National Indigenous Reform Agreement
- data for the baseline reporting period of the 2008-09 calendar year (where 2008-09 data were not available, the most recent reporting year was included)
- comment on data quality for each performance indicator (based on the data quality statements provided by the collection agencies), and an overall comment on the key issues in reporting against the performance indicators
- additional contextual information (including outputs listed in the National Agreements for healthcare, affordable housing, disability and Indigenous reform).

The Steering Committee was asked by the Chair of the HoTS Committee to draw together information on data gaps in the National Agreement performance reporting. The Steering Committee's reports cover data gaps across all six National Agreements under the IGA, including:

- performance indicators that do not provide adequate/appropriate measures for reporting against associated outcomes
- performance indicators where no data are available
- performance indicators where baseline year data are not available
- performance indicators where data are not able to be reported according to the required disaggregations
- performance indicators where there are issues of statistical reliability.

### *Indigenous Expenditure Report*

The Productivity Commission also provides (separate) secretariat services for the Indigenous Expenditure Report Steering Committee. In 2007, COAG agreed to the



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reporting of Indigenous expenditure, and the Steering Committee to take this forward was established in May 2008. The Productivity Commission assumed secretariat responsibilities from November 2008. A Stocktake Report, including terms of reference for the report and a high level overview of the intended methodology and future development process, was endorsed by COAG in July 2009. Following COAG endorsement of the Stocktake Report, the Steering Committee has prepared:

- an *Expenditure Data Manual*
- a *Service Use Measure Definitions Manual*
- a draft *2010 Indigenous Expenditure Report* (currently before governments for sign-off).

Once formal endorsement has been provided by all jurisdictions, the report will be submitted to COAG, through the HoTs Committee and Ministerial Council for Federal Financial Relations. Initial planning has commenced for the 2011 Indigenous Expenditure Report.

Further information on performance reporting activities in 2009-10 is provided in appendix C.

### **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 no formal written complaints in 2009-10.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2009-10, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

Details of the advisory and research activities of the AGCNCO are reported in appendix C.

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## **Supporting research activities and annual reporting**

The Commission is required under its Act 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 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, union bodies and academics.

In 2009-10 the Commission's supporting research program continued to emphasise the sustainability of productivity improvements, including environmental and social aspects. This included work on productivity and its determinants; labour markets; and the development of economic models and frameworks.

The Commission's published research during the year (box 2.1) included staff working papers on agricultural policy, urban water and the effects of education and health on wages and productivity. Several papers were also published connected to the Commission's statutory annual reporting requirements.

Further information on the Commission's supporting research activities and publications in 2009-10 is provided in appendix E. This also details the 104 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 2009-10, with a focus on the Commission's role and activities and related policy issues, particularly regulation (table E.2).

## **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 in advance.

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## **Open inquiry procedures**

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. An indication of the extent of consultation undertaken by the Commission is that during the course of its public inquiry activities in 2009-10, it met with more than 260 organisations or groups; held 28 days of public hearings; and received more than 600 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 480 submissions to these studies in 2009-10, with many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

The nature of the Commission's consultative and transparent processes in the past year is illustrated in box 2.2. These examples also demonstrate initiatives to ensure that the views and experiences of people living in regional areas are taken into account.

## **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.

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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. For example:

- In conducting its inquiry into gambling, the Commission sent circulars to a wide range of individuals and organisations thought to have an interest in the inquiry. During the early stages of the inquiry, the Commission also consulted with a range of interested parties to get an idea of the key issues and where the Commission's report could add most value. A number of roundtables were also held in late 2008 and early 2009. A Draft Report was released for public comment in October 2009. Public hearings to discuss the Draft were held in Melbourne, Sydney, Adelaide, Brisbane and Canberra in late November and early December. In conducting its inquiry, the Commission benefited greatly from the participation of a wide range of individuals and organisations, receiving some 422 submissions.
- In the course of its inquiry into wheat export marketing arrangements, the Commission undertook extensive consultations in rural and regional areas. The Commissioners and team undertook informal industry visits prior to the receipt of the terms of reference in order to be able to release an issues paper as soon as possible after the inquiry was announced. The inquiry was advertised nationally, including in regional areas, and the Commission promoted the inquiry on its website. A media alert was issued, and advertisements also placed in each of the relevant metropolitan and regional papers regarding the hearings and forums. The Commissioners also undertook radio interviews on the ABC to draw growers' attention to the public forums in regional areas. The 15 hearings and forums held during the inquiry included a major wheat growing area in each wheat growing state, in addition to metropolitan areas. The Commission also consulted widely through discussions with interested parties such as the Wheat Export Authority, growers, grains industry representatives, accredited exporters, bag and container exporters, potential bulk exporters, bulk handling companies, the Australian Competition and Consumer Commission and relevant government departments.

In August 2009 the Commission held a Roundtable on the topic 'Strengthening Evidence-Based Policy in the Australian Federation.' Participants included government officials, academics, consultants, journalists and representatives of a range of organisations and agencies. Keynote addresses were presented by Dr Ron Haskins, Senior Fellow of the Brookings Institution, and Professor Jeffrey Smith of the University of Michigan. The roundtable discussed the principles of the evidence-based policy movement and reviewed how well Australian use of evidence conformed to best practice. It then considered how to improve the availability of quality evidence, and reviewed possible institutional developments to embed good use of evidence more firmly into policy-making. Papers were initially made available on the Commission's website and the proceedings were subsequently published.

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The Commission also has an active seminar program involving external experts on a range of policy issues relevant to its work. These seminars are intended to bring new ideas and stimulate debate within the Commission, as well as to foster networks with academic and other experts of relevance to the Commission's work.

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. In 2009-10 Dr Rick Geddes (Cornell University) joined the Commission as a Visiting Researcher during the year.

### **Research collaboration**

The Commission continued to participate in collaborative research projects with academic institutions in 2009-10. 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 the ABS, Centrelink 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
- the University of New South Wales and the University of British Columbia (Vancouver) on tackling problems in productivity measurement in infrastructure, services and research and development (other partner organisations were the ABS and the Reserve Bank of Australia).

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'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. He is on the judging panel for the BHP Billiton/Reconciliation Australia 'Indigenous Governance Awards'. He also is a member of the speaker faculty for the Melbourne Business School's Public Policy Series. 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. For example, Deputy Chairman Mike Woods has been the Commission's principal contributor to the China Australia Governance Program (CAGP) and chaired the Fiscal Reform Implementation Planning Committee. 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 Wendy Craik serves on the Boards of the WorldFish Center, the Foundation for Rural and Regional Renewal and Dairy Australia. Louise Sylvan is Deputy President of the Council of the Medical Foundation of the University of Sydney, and also serves on the Board of the Diplomacy Training Program established by The Hon Jose Ramos Horta. Philip Weickhardt is currently Chairman of Earthwatch Institute, a not-for-profit organisation which contributes to scientific research on environmental issues. He is also on an advisory Board for Anglo American in Australia, and does some teaching for Melbourne Business School in the executive education area.
- 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. The secretariat 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

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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 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 21<sup>st</sup> East Asian Seminar on Economics was held in Sydney in June 2010. Commission research on productivity and the trade and investment effects of preferential trading arrangements has featured in previous seminars.
- 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 other research networking activities. For example, members of staff served on a range of bodies including the ABS Productivity Measurement Reference Group, the ABS Analytical Reference Group and the OECD Working Party on Industry Analysis.

### **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 in receiving updates on more general developments. An email alert service currently notifies more than 1500 recipients of significant events including report releases and the commencement and completion of inquiries. Additional email alerts are also sent to Commonwealth

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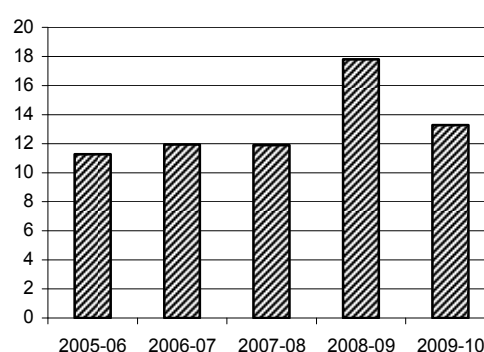
parliamentarians, the media, government departments and contacts in the states and territories.

In the 12 months to June 2010 there were more than 205 000 external requests for the index pages of inquiries and commissioned research studies current in 2009-10. The projects of most interest were the inquiries on gambling (38 750 requests), disability support (26 640 requests) and executive remuneration (19 000 requests), and the research study on the contribution of the not-for-profit sector (27 800 requests). Other heavily accessed web pages were for the 2009 and 2010 Reports on Government Services (and 23 300 and 23 400 requests, respectively) and the 2009 Overcoming Indigenous Disadvantage Report (50 900 requests). Speeches by the Commission's Chairman attracted more than 41 000 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 and the 2005 study of the economic implications of an ageing Australia were each requested over 10 000 times.

The Commission's website received over 13 million file requests from external users in 2009-10 (figure 2.2).

**Figure 2.2 Website hits**  
Million



## **Feedback on the Commission's work**

The Commission actively monitors reaction to, and seeks feedback on, its work in order to improve its performance and 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.

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.



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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 has sought feedback on the usefulness of the *Report on Government Services* every three years until 2007. 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. The feedback survey scheduled for 2010 was postponed pending the outcome of a review of the Steering Committee's Report on Government Services, commissioned by COAG in 2009. COAG endorsed the review's recommendations at its 7 December 2009 meeting. These recommendations noted that the ROGS should continue to be the key tool to measure and report on the productive efficiency and cost effectiveness of government services, and that the Chairman of the Productivity Commission should remain Chair of the Steering Committee, with the Productivity Commission continuing to provide secretariat support.

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 the conduct of hearings. The number of participants providing feedback through these mechanisms nevertheless remains low: less than 50 respondents in total in 2009-10. Most of the feedback was positive. Feedback is in turn forwarded to authors, inquiry teams and management for consideration and action, where required.

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

In March 2010, the Assistant Treasurer, Senator the Hon. Nick Sherry, said that:

... it's important to have rigorous economic analysis and the Productivity Commission is an important part of that debate in Australia. (Sherry 2010)

During the year COAG requested that the Commission undertake several new projects to assist it with its work. These included a study of the impacts and benefits of the COAG reform agenda, and a series of studies on the education and training workforce. In announcing the latter series of studies, the Government stated that this work would:

...provide valuable input to the work of the Council of Australian Governments (COAG) to strengthen Australia's education and training workforces.(Gillard and Sherry 2010)

The Opposition also proposed a number of tasks for the Commission during the year, including that it inquire into and recommend future population policies; conduct an economic analysis of all proposed major defence acquisitions; and analyse a number of aspects of the Government's Carbon Pollution Reduction Scheme (CPRS).

Additional funding was announced for the Commission in the 2010-11 Budget for it to undertake industry reviews associated with the Government's Renewable Energy Target. More broadly, the Budget also stated that:

It is anticipated the Commission's work in 2010-11 and the forward years will be integral to the national reform agenda.

In April 2010 the Grattan Institute called for a permanent group to be established within the Commission to monitor the effect of a carbon price on the competitiveness of industry. (Daley and Edis 2010)

In July 2010 the final report of the (Cooper) Review of the Superannuation System proposed a number of tasks for the Commission, including that it be asked to review the processes by which default superannuation funds are nominated in awards.

A range of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews of energy efficiency; the costs of inconsistent public holiday dates across state and territory jurisdictions; bilateral trade agreements; aspects of electronic payment systems; the economic case for the structural separation of Telstra; the potential savings arising from using technologies to maintain seniors in their own homes; the viability of wind power; regional provision of services and infrastructure; current retail structures; the cost and prevalence of communication and swallowing disorders in Australia; and the economic and social costs of suicide.

In February 2010 the OECD referred to the Commission as 'a respected source of advice on the potential areas where reform will deliver economic benefits' and discussed its 'important role in the achievement of the objectives of COAG's reform agenda.' (OECD 2010b, p. 139)

In March 2010 the New Zealand Government announced the establishment of a New Zealand Productivity Commission, stating that:

The (New Zealand) Commission's roles and functions are modelled closely on the Australian Productivity Commission, which has been operating for more than 10 years... The independence of the Australian Productivity Commission has ensured that important public policy issues have been tackled in a non-political way. (English and Hide 2010)

Details are provided in appendix C.

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## Policy and wider impacts

All of the Commission's activities 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 the medium term. (These and other considerations in assessing the Commission's overall performance and across each of its four main activity streams are discussed in appendix C.)

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 most of the Commission's recommendations on executive remuneration (Swan, Bowen and Sherry 2010). Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six subject to further strengthening.
- In response to the Commission's *Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services* the Government accepted

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or provided in-principle acceptance to a majority of the recommendations in the report. Of the 42 Commission recommendations, the Government accepted or accepted in principle 26 recommendations, and noted a further 12 recommendations. The Government accepted recommendations across a range of areas, including aged care; child care; information media and telecommunications; electricity, gas, water and waste services; transport; and education and training.

- The Australian Government released an initial response to the Commission's gambling report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. For example, it stated that it:

... supports the use of pre-commitment technology to tackle problem gambling and is committed to working with State and Territory Governments, and industry, in implementing this technology. (Macklin, Sherry and Conroy 2010)

The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.

- The Government also announced in November 2009 that it will establish a National Offshore Petroleum, Minerals and Greenhouse Gas Storage Regulator, in line with recommendations made in the Commission's 2009 review of regulation in the upstream petroleum sector (PC 2009a).
- In April 2010, COAG agreed to the development of a nationally consistent approach to fundraising regulation, in line with recommendations made in the Commission's report on the economic contribution of the not-for-profit sector. (COAG 2010a)
- In responding to the Commission's report on restrictions on the parallel importation of books in November 2009, the Government announced that it did not intend to change the Australian regulatory regime for books (Emerson 2009a).
- In June 2010, the Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011 (Burke 2010a). The pilot reform measures draw partly on a number of recommendations made in the Commission's 2009 inquiry report on *Government Drought Support*, in particular regarding interest rate subsidies and farm exit support.

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

Governments need not accept the Commission's advice, and sometimes do not (at least initially). That said, a review of the Commission's inquiry outputs since its

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inception in 1998 shows that governments have typically adopted a substantial majority of the Commission's recommendations and generally endorsed its findings (details are provided in appendix C and table C.7). Further, an assessment of the nature and extent of references made to Commission inquiry reports suggests that those reports have contributed to policy debates in federal, state and territory parliaments, as well as within the media and general community (appendix C).

### **Contribution to parliamentary debate**

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2009-10 sittings of the *Federal Parliament*:

- 86 Members and 41 Senators referred to 43 different Commission reports or inquiries, or to the Commission's role in policy processes
- in around three-quarters of the 268 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 3 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on aged care trends, paid parental leave, executive remuneration, consumer policy and gambling.

In addition, there were 250 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2009-10. The Commission was mentioned in the proceedings of 21 different committees, most prominently in proceedings of the Senate Standing Committee on Community Affairs; the Senate Standing Committee on Economics; the Senate Standing Committee on Environment, Communications and the Arts; the Senate Standing Committee on Rural and Regional Affairs and Transport; and the House of Representatives Standing Committee on Employment and Workplace Relations. The most frequent mentions were to the reports on paid parental leave, executive remuneration, the contribution of the not-for-profit sector and consumer policy.

Fourteen parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The 26 recent parliamentary committee reports listed in table C.1 referred to 20 different Commission outputs.

Some thirty Parliamentary Library reports in 2009-10 referred to Commission inquiry and research reports, or to reports on government services (table C.2). This included the use of Commission outputs to inform discussion of legislation in such key areas as executive remuneration, chemicals and plastics regulation, land transport, industry assistance, health workforce reform, consumer policy,

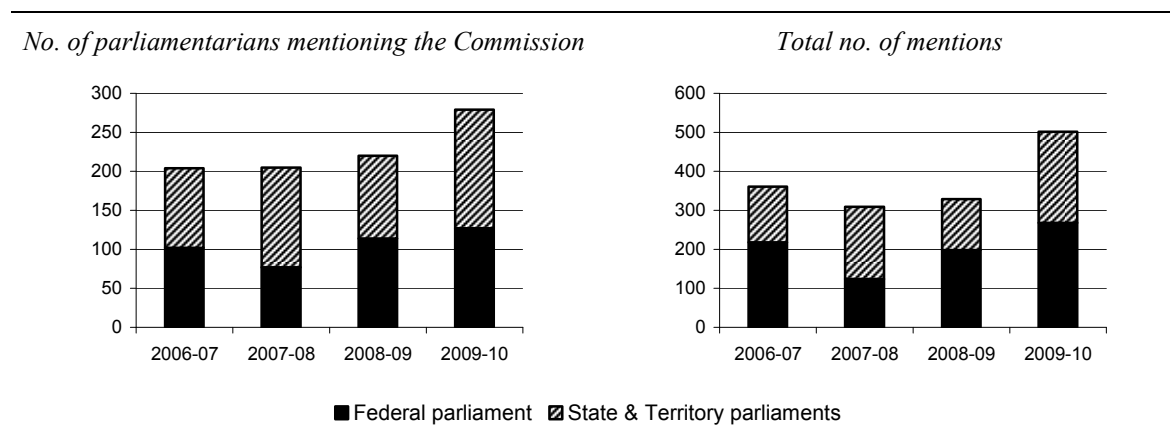
occupational health and safety, petroleum production, drought assistance, research and development and paid parental leave. Use of Commission outputs by the Australian National Audit Office is also reported in appendix C.

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 2009-10 sittings of the eight state and territory parliaments:

- 152 members referred to 31 different Commission publications or inquiries, the Report on Government Services, or to the Commission’s role in policy processes
- in 87 per cent of the 234 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with only 2 per cent of mentions that were critical of a particular finding, report or Commission attribute
- around 40 per cent of mentions were to the Report on Government Services, with the Commission’s reports on consumer policy, the health workforce, and gambling also featuring prominently.

Recent trends in mentions of the Commission in federal, state and territory parliamentary proceedings are shown in figure 2.3.

**Figure 2.3 Mentions of the Commission in Australian parliaments, 2006-07 to 2009-10**



### Other indicators of policy impact

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

- use of Commission analysis during the year by the Prime Minister, Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers,

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including use of Commission reports on paid parental leave, gambling, water buybacks and the regulatory burdens on business

- use of recommendations from the Commission's 2006 report on consumer product safety when designing a national product safety website for consumers (Emerson 2010)
- 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, COAG, state governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW, the National Health and Hospitals Reform Commission and others of a diverse range of Commission supporting research outputs, in particular its work on productivity analysis, health and aged care, emissions trading, climate change and rural and urban water use
- use of Commission outputs by key international agencies, including the OECD and the IMF.

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 Queensland, New South Wales, South Australia and Victoria, and visits to other jurisdictions are scheduled throughout 2010-11. The Commission also responded to requests for briefings to visiting officials and delegations from Iraq, New Zealand, Indonesia, the Philippines, Thailand, Vietnam, Papua New Guinea, China, the United States, Saudi Arabia, Canada, Cambodia, Chile, Pakistan, Abu Dhabi, APEC, the OECD and IMF (table E.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2009-10, 76 editorials in eleven 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 reports on gambling and executive remuneration featured prominently. However, editorials also drew on the analysis in a range of other inquiry and research reports (including those on government drought support, restrictions on the parallel importation of books, government services and Indigenous disadvantage) or referred to the Commission's role in contributing to policy development. The Commission rated an average of 352 mentions a month in electronic media and an average of 280 mentions a month in print media in 2009-10. The Commission's inquiries into executive remuneration

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and gambling and its study of parallel import restrictions on books 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 C.

## **Associated reporting**

Management and accountability information for 2009-10 is reported in appendix B. The audited financial statements for the Commission are contained in appendix G.

In response to suggestions by the Senate Standing Committee on Economics (2008), details of Commission appearances at Senate Estimates during the year are provided in Appendix C.

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

- *Trade & Assistance Review 2009-10*, 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 Recent developments in Australia's productivity

This is the first of the Commission's annual updates on productivity developments in Australia. Being the first, it includes additional background and discussion of longer-term trends, which will be only selectively included in future productivity updates where relevant to contemporary observations and issues.

Australia's most recent productivity performance raises a number of questions — in particular, why such a sharp decline in productivity growth occurred, which factors that affected this decline might have run their course, and what can be done to accelerate productivity growth.

This appendix covers the main messages from the Commission's submission to the House of Representative Economics Committee inquiry into productivity (PC 2009), together with an examination of Australia's productivity performance since that time. It examines: what productivity is and why it is important; Australia's long-term productivity trends; key factors behind these trends; Australia's most recent productivity results (bearing in mind that the most recent estimates may be subject to revision); and productivity challenges in the future.

## **A.1 What is productivity and why is it important?**

Productivity is a measure of how efficiently an economy is operating. Growth in productivity is an important determinant of long-term economic growth and hence income growth. As such, Australia's future productivity performance will affect the robustness of its recovery from the recent global financial crisis as well as its longer-term prosperity and capacity to address emergent challenges such as population ageing and climate change.

There are two main measures of productivity (box A.1). The most commonly referred to is labour productivity, which is a measure of the amount of output

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produced per hour worked and is generally calculated as value added<sup>1</sup> divided by hours worked. However it is not, despite its title, a good indicator of labour efficiency. A finding of growing labour productivity is typically due in part to an increase in output resulting directly from additional capital investment and other complementary factors, as well as improvements in the way labour is used.

Labour productivity is a catch-all concept which enables output to be compared with the actual hours worked by the labour force. Given the way it is defined, labour productivity growth accounts for most of the growth in real income over the long term.

**Box A.1 Labour productivity versus multifactor productivity**

Labour productivity is a measure of the amount of output produced per hour worked, and is generally computed as value added divided by hours worked. However, as value added reflects the return to both labour and capital, it is more appropriate to consider the ratio of value added to 'a unit bundle' of both capital and labour — this is multifactor productivity (MFP).

It is straightforward to show (though a little algebra is required) that labour productivity growth is equal to the sum of MFP growth and a term proportionate to the growth in the ratio of capital to labour — this term is known as capital deepening. So labour productivity growth can arise through an increase in MFP or through an increase in the ratio of capital to hours worked — that is, more capital per unit of labour input.

To the extent that growth in labour productivity arises from an increase in capital deepening rather than MFP, it is the additional capital (per unit of labour) that is the source of the additional output (per hour worked). As capital is a scarce resource, this capital deepening comes at a cost which must be offset against the value of the additional output. In a hypothetical case where capital deepening is positive and MFP growth is zero, labour productivity growth will also be positive (equal to the growth in capital deepening). However, the additional (relative) capital cost fully offsets the increase in value added so that in net terms the community is no better off even though there has been labour productivity growth.

It is this lack of explicit accounting in labour productivity for the additional (relative) resource cost of capital that can lead to labour productivity being a misleading indicator of changes in the productive efficiency of the economy. In contrast, MFP accounts fully for both capital and labour resource costs.

Australia's official multifactor productivity (MFP) statistics measure the amount of output (value added) obtained from a combined unit of capital and labour. This

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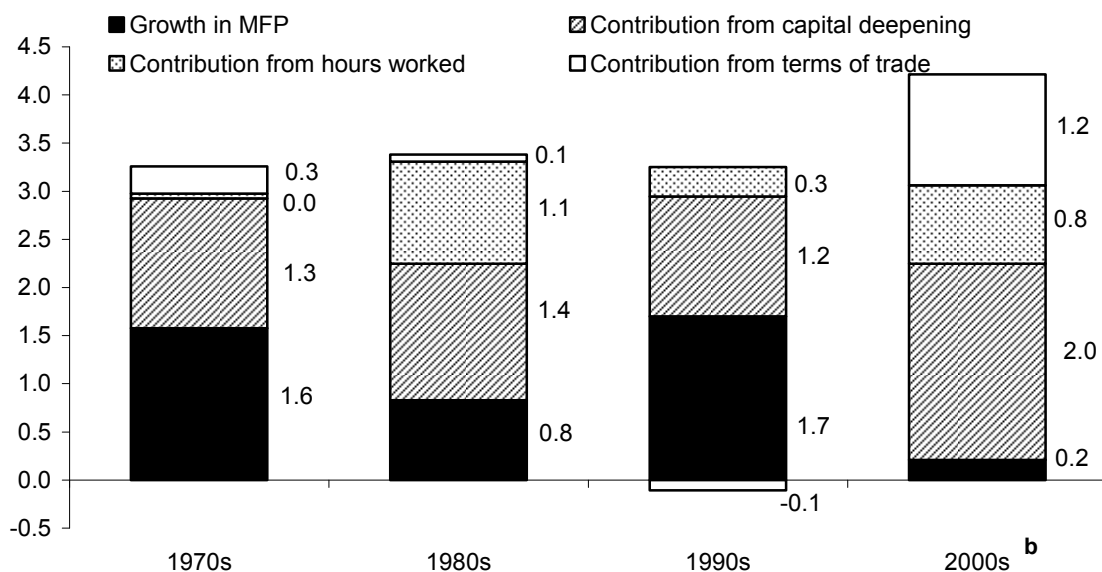
<sup>1</sup> Value added is defined as the value of output less the value of all inputs other than capital and labour. In this appendix, value added refers to value added in real terms. Gross domestic product (GDP) is value added for the whole economy.

enables economic growth to be analysed in terms of the contributions from each of its constituents: growth in labour, in capital and in MFP. Being the more comprehensive indicator of productive efficiency, MFP contributes policy relevant insights into the various determinants of growth. The “headline” focus in this appendix will be MFP, with commentary on labour productivity (LP) where that adds value to the analysis of MFP outcomes. LP will also be presented for the current year recognising that MFP estimates are usually lagged by about 6 months.

Figure A.1 shows the contribution to Australia’s real income growth over the past four decades, from changes in capital inputs, labour inputs, MFP and the terms of trade. Changes in the terms of trade — the prices of Australian exports relative to imports — have had only a small effect over the longer term, though in the most recent decade sustained increases in commodity prices have made a large contribution to income growth. A favourable shift in the terms of trade raises living standards by giving Australian income more purchasing power over imports.

**Figure A.1 Contributions to income growth — the importance of MFP**

Estimated contributions to growth in real gross domestic income<sup>a</sup>  
Percentage points, average annual rates (to 2008-09)



<sup>a</sup> Gross domestic income is GDP adjusted for changes in the terms of trade. Estimated contributions to growth in real gross domestic income are based on the assumption that the proportionate contributions to income growth from inputs and MFP are the same for the total economy as for the market sector (the ABS does not estimate MFP growth for the non-market sector). <sup>b</sup> 2000s are calculated under the ABS System of National Accounts 2008 basis, all other time periods calculated under the ABS System of National Accounts 1993 basis.

Data source: Commission calculations based on ABS (*Australian System of National Accounts, 2008-09*, Cat. no. 5204.0 and earlier issues).

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Separating out the growth in labour and capital, and changes in the terms of trade, Commission estimates suggest that MFP growth has been responsible for almost one-third of total real income growth over the last four decades (figure A.1). The contribution of MFP growth to income growth has varied considerably over the decades. It is interesting to note that, in the most recent decade, factors affecting mining have been a particular influence on the contributions to income growth — with a lower contribution from MFP growth and a higher contribution from the terms of trade. The interplay between income growth and productivity growth in mining is discussed below.

## A.2 Australia's long-term productivity trends

Over the 35 year period from 1973-74 to 2008-09 (the duration of Australia's official productivity time series) annual MFP growth in the Australian market sector has averaged 0.8 per cent a year. In this appendix, the 'market sector' is that part of the economy for which productivity is well-measured — all the economy except health, education, defence, public administration, and difficult to measure property, business and personal services within the business sector.<sup>2</sup>

As a result of the many factors that influence the components of measured productivity growth, rates of MFP growth in the Australian market sector vary considerably over time. For example, productivity tends to slow during dips in the business cycle, and can sometimes slow during early stages of rapid investment growth and then accelerate as output from that investment 'catches up'. To avoid comparisons of productivity (or productivity growth rates) across inappropriate points of time the ABS identifies productivity cycles — periods over which average growth in MFP can be most appropriately compared. These cycles frequently (though not always) coincide with the period between successive peaks in MFP.

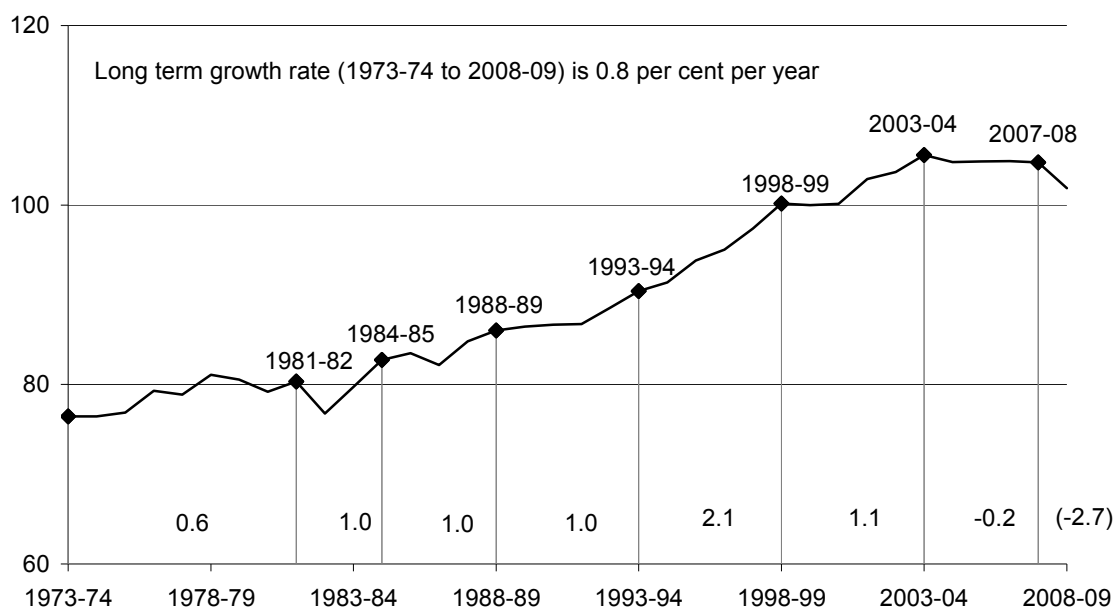
Figure A.2 provides a time series of the level of (an index of) MFP for the Australian market sector between 1973-74 and 2008-09, together with the ABS defined productivity cycles and the average annual rates of MFP growth within each cycle. The final year, 2008-09, is the first year since the previous cycle concluded in 2007-08 and is thus not a cycle in itself. However, the growth rate of MFP in 2008-09 is included for completeness.

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<sup>2</sup> The industries within the ABS *Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006* that are excluded are: Health care & social assistance; Education & training; Public administration & safety; Rental, hiring & real estate services; Professional, scientific & technical services; Administrative & support services; and Other services.

**Figure A.2 Market sector<sup>a</sup> MFP index and growth rates across productivity cycles, 1973-74 to 2008-09**

Index 1999-2000 = 100 and per cent per year



<sup>a</sup> The market sector consists of 12 selected industries (ANZSIC06 Divisions A to K and R).

Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

Average productivity growth rates have varied considerably across the seven completed cycles since 1973-74. However, the standouts are the very high average growth rate recorded in the 1993-94 to 1998-99 cycle, and the subsequent decline, particularly the very low (negative) growth recorded in the last complete cycle from 2003-04 to 2007-08.

Australia's average annual MFP growth rate during the 1993-94 to 1998-99 productivity cycle, at 2.1 per cent, was substantially above the rates recorded in any of the other productivity cycles and more than twice the long-term average.

Compared with the previous cycle from 1988-89 to 1993-94, growth in the 1993-94 to 1998-99 cycle was broadly based, encompassing a variety of industries. Comparing columns one and two in table A.1, of particular note were the productivity improvements in Wholesale trade, Construction, Transport, postal & warehousing, and Accommodation & food services. There were, however, also sectors with lower relative performance, such as Mining.

**Table A.1 Growth in MFP by industry and productivity cycle**

Per cent per year

	1988-89 to 1993-94	1993-94 to 1998-99	1998-99 to 2003-04	2003-04 to 2007-08
Agriculture, forestry & fishing	4.0	4.0	3.5	-1.2
Mining	3.0	0.6	-0.4	-4.2
Manufacturing	0.1	0.4	1.7	-0.9
Electricity, gas, water & waste services	3.2	1.9	-2.0	-4.4
Construction	-0.5	2.8	1.0	0.8
Wholesale trade	-2.1	5.8	1.3	0.3
Retail trade	2.0	2.3	1.3	0.5
Accommodation & food services	-0.3	1.7	0.5	0.1
Transport, postal & warehousing	1.7	2.3	2.4	1.6
Information, media & telecommunications	6.3	3.8	-0.5	0.9
Financial & insurance services	4.9	1.3	1.2	2.5
Arts & recreation services	-1.6	-1.5	1.4	-1.0
<b>Market sector<sup>a</sup></b>	<b>1.0</b>	<b>2.1</b>	<b>1.1</b>	<b>-0.2</b>

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in the table.

Source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

Average annual MFP growth in the 1998-99 to 2003-04 cycle, at 1.1 per cent, was closer to the long-term average of 0.8 per cent, but in the next cycle to 2007-08 it averaged -0.2 per cent. The decline in growth rates was broadly based in both cycles.

Productivity growth fell broadly and quite substantially in the 1998-99 to 2003-04 cycle compared with the previous cycle (the second and third columns in table A.1). Average MFP growth fell by one percentage point or more in seven of the twelve industry sectors making up the market sector. Manufacturing and Arts & recreation services were the only industries to record significant increases in average productivity growth compared with the earlier cycle. Average rates of MFP growth in Electricity, gas, water & waste services, along with Wholesale trade and Information, media & telecommunications, fell by more than 3 percentage points, though Information, media & telecommunications recovered to some extent in the following years.

In the 2003-04 to 2007-08 cycle, productivity growth fell further in ten of the twelve market sector industries with MFP growth in each of Agriculture, forestry & fishing, Mining, Manufacturing, Electricity, gas, water & waste services, and Arts & recreation services falling by more than another 2 percentage points.



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Average annual MFP growth in Mining has fallen from -0.4 per cent in the 1998-99 to 2003-04 cycle to -4.2 per cent in the 2003-04 to 2007-08 cycle, and Agriculture, forestry & fishing has fallen from 3.5 per cent to -1.2 per cent. In addition, Manufacturing MFP growth has fallen from 1.7 per cent to -0.9 per cent per year, Electricity, gas, water & waste services has fallen from -2.0 per cent to -4.4 per cent, and Arts & recreation services has fallen from 1.4 per cent to -1.0 per cent.

These five industries together accounted for more than a third of total market sector value added in 2007-08, so the falls in MFP growth in these industries had a large effect on aggregate market sector MFP growth. However, special circumstances largely explain the poor MFP performance of three of these five sectors.

Since the last complete cycle, MFP growth was -2.7 per cent in 2008-09 — the global financial crisis clearly played a role in this result, which is discussed briefly in section A.4.

### **A.3 Key factors behind Australia's productivity performance**

#### **Factors behind the surge of the 1990s**

There has been considerable debate about the reasons for the productivity surge in the 1990s and, in particular, the link to the program of macroeconomic and microeconomic reforms that preceded and coincided with it. The Commission has undertaken analysis of other potential causes and has found that they were not significant in explaining the surge in productivity. For example:

- Australia was not carried along by an international productivity boom. Indeed, Australia's MFP growth performance during this period was at the front of OECD countries.
- The surge in productivity was not the normal result of recovery from the early 1990s recession. The improved performance was longer and stronger than in previous recoveries. Besides, focusing on average growth rates across the productivity cycle abstracts from cyclical influences.
- Higher skill levels in the workforce did not have a significant direct impact on productivity growth in this period. Analysis in a Commission Staff Research Paper by Barnes and Kennard (2002) of ABS estimates of MFP adjusted for labour quality showed there was a decline in the contribution of labour quality improvement in the period of the surge relative to that of the 1988-89 to 1993-94 cycle. While more recent revised ABS statistics, estimated under new national

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accounts methodology, show an increase in the contribution of labour quality improvement between these cycles, that increase is very small (less than 0.1 of a percentage point).

- It cannot be concluded that Australia's acceleration in productivity growth arose from any special technological leap forward. While some other countries, including the United States, derived some productivity benefit from rapid advances in the *production* of information and communication technologies (ICTs) in the 1990s, Australia produced little in the way of ICTs and so did not access that source of productivity gain. As far as the use of ICTs is concerned, a Commission Staff Research Paper (Parham, Roberts and Sun 2001) found that while the adoption of information technology in Australia had contributed to LP growth through increasing the amount of capital available to labour, it appeared to have very little role to play in the increase in market sector MFP growth over the period.

The removal of these possible explanations as likely causes of the surge in productivity leaves the reforms of the latter part of the 1980s and the 1990s as the prime candidate. This is not surprising, as the reforms were predicated on the need to remove policy-related sources of inefficiency that were seen as holding back relative living standards.

A return to more typical productivity growth rates following the surge was to be expected as the easily accessible gains were realised. This was indeed the case, with MFP growth falling back to an annual average rate of 1.1 per cent through the 1998-99 to 2003-04 cycle.

### **What caused the more recent productivity reversal?**

The poor MFP growth (average annual rate of -0.2 per cent) in the most recent complete productivity cycle (2003-04 to 2007-08) is largely explained by phenomena peculiar to a few key industry sectors.

#### *The mining boom: good for incomes, bad in the short term for productivity?*

In the most recent complete cycle, 2003-04 to 2007-08, average annual MFP growth in Mining has been -4.2 per cent (figure A.3).

**Figure A.3 Value added, capital and labour input components<sup>a</sup> of MFP growth in Mining, by productivity cycle**  
Average annual growth rate



<sup>a</sup> Capital and labour inputs are weighted by their relative shares of income.

Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

For each productivity cycle shown in figure A.3, and subsequent similar figures, the white bars represent average annual growth in value added, and the black and shaded bars represent the weighted average annual growth rates in the contribution of capital and labour, respectively. The capital and labour contributions are weighted by their respective shares of income. The diamonds represent average annual MFP growth rates — approximately equal to the difference between value added growth (the white bar) and input growth (the sum of the black and shaded bars).

A Commission Staff Working Paper *Productivity in the Mining Industry: Measurement and Interpretation* (Topp et al. 2008) shows that ongoing systematic decline in the quality and accessibility of mineral resources has had a significant impact on measured productivity growth in mining. In some instances this results in an increase in extraction costs and in some instances in a decrease in output quality — both of these effects put downward pressure on MFP growth in the mining industry. This study's estimates suggest that in the absence of such depletion, *long-term* MFP growth (1974-75 to 2006-07) in mining would have averaged a little over

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2 per cent a year compared with official estimates of essentially zero for that period.<sup>3</sup>

In addition to this, the recent boom in demand for, and the associated rise in the price of, certain mineral resources has led to less efficient, but now profitable, short-term production opportunities being taken up. *This leads to lower measured productivity, but higher profits and gross domestic income* (as shown in figure A.1).

Also, in an effort to gear up production to take advantage of profit opportunities arising from the rapid growth in mineral demand, mainly from China, the mining industry expanded capital and labour inputs at an extraordinary rate. Recent massive capital investment, but with long lead times to full production, has reduced measured MFP growth in mining.<sup>4</sup> In official productivity estimates, investment is accounted for in the period of expenditure, but lags of around 3 years before associated output is realised are not uncommon in major new capital investments in the mining sector.

While this is a temporary phenomenon and will be ‘paid back’ in years to come as the output ‘catches up with’ the investment, it will continue to influence measured productivity throughout periods of unstable investment (either rapid growth or decline). Topp et al. (2008) estimated that around one-third of the decline in mining MFP between 2000-01 and 2006-07 was accounted for by this phenomenon.

Once the resource quality effects and capital lag effects are removed, measured MFP growth in Mining has positive trend growth between 2000-01 and 2006-07 (figure A.4) — the effect is particularly strong in more recent years because of very strong capital growth and capital/output lags.

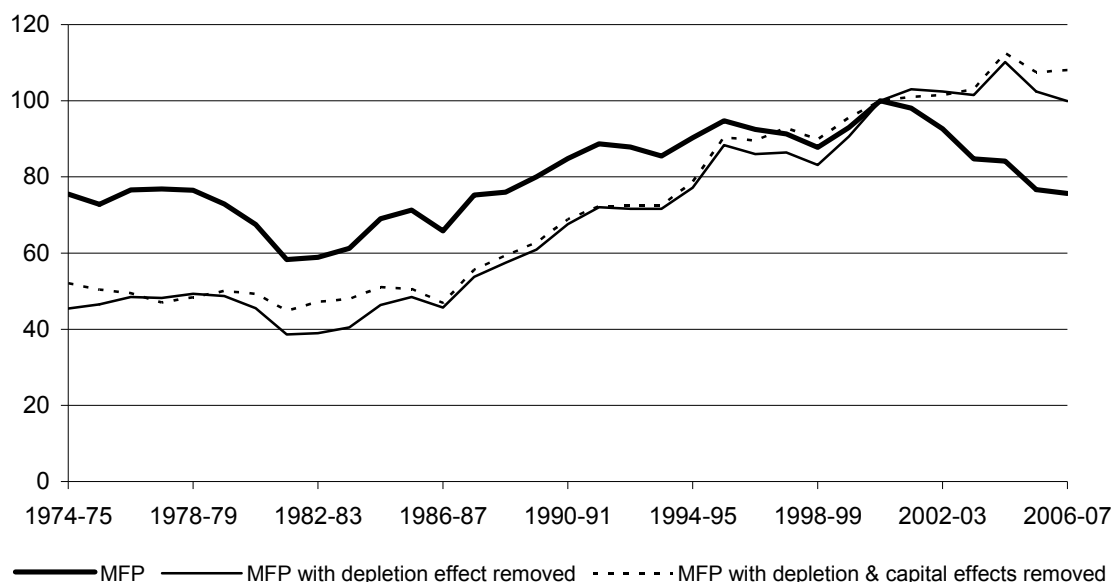
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<sup>3</sup> This study was based on data from the 2006-07 ABS industry MFP dataset and differs slightly from the estimates presented in figure A.3, which are based on the 2008-09 ABS industry MFP dataset.

<sup>4</sup> A sluggish response in investment in associated transport infrastructure has also been cited by some as a potential drag on productivity in Mining.

Figure A.4 **Mining MFP level with and without depletion and capital lag effects, 1974-75 to 2006-07<sup>a</sup>**

Index 2000-01 = 100



<sup>a</sup> The estimates in Topp et al. (2008) are based on ABS (*Experimental Estimates of Industry Multifactor Productivity, 2006-07*, Cat. no. 5260.0.55.002), the latest available data at that time. These differ from the estimates used in figure A.3, which are based on the 2008-09 issue of the same ABS publication.

Source: Topp et al. (2008, p. 99).

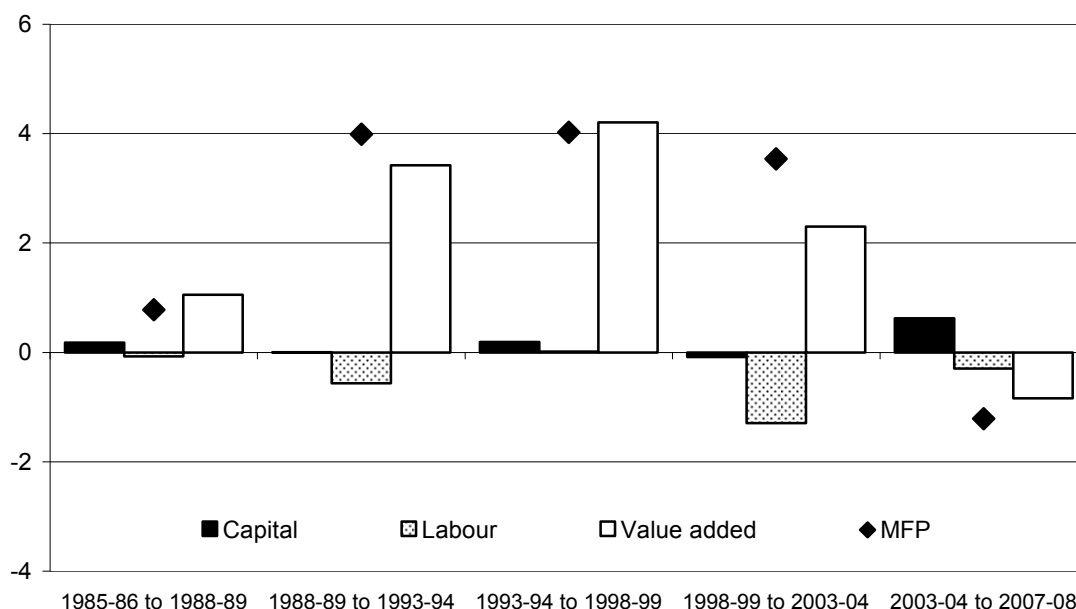
### *Agricultural productivity reduced by drought*

The generally low rainfall and reduced rate of runoff per unit of rainfall<sup>5</sup> since the turn of the century has had a significant effect on MFP growth in Agriculture, forestry & fishing and particularly so in the exceptionally low rainfall years of 2002-03 and 2006-07.

In the most recent cycle, 2003-04 to 2007-08, average annual MFP growth in Agriculture, forestry & fishing has been -1.2 per cent, following strong average annual MFP growth of between 3 and 4 per cent across each of the preceding three complete productivity cycles (figure A.5). This outcome is a direct consequence of the severe drought induced fall in the sector's value added of 15.3 per cent in 2006-07, with MFP growth of -17.1 per cent in that year.

<sup>5</sup> For example, it has been estimated that a mean rainfall reduction of 13 per cent in the southern Murray-Darling basin, over the decade to 2006, led to a mean runoff reduction of 39 per cent (SEACI 2008).

**Figure A.5 Value added, capital and labour input components<sup>a</sup> of MFP growth in Agriculture, forestry & fishing, by productivity cycle**  
Average annual growth rate



<sup>a</sup> Capital and labour inputs are weighted by their relative shares of income.

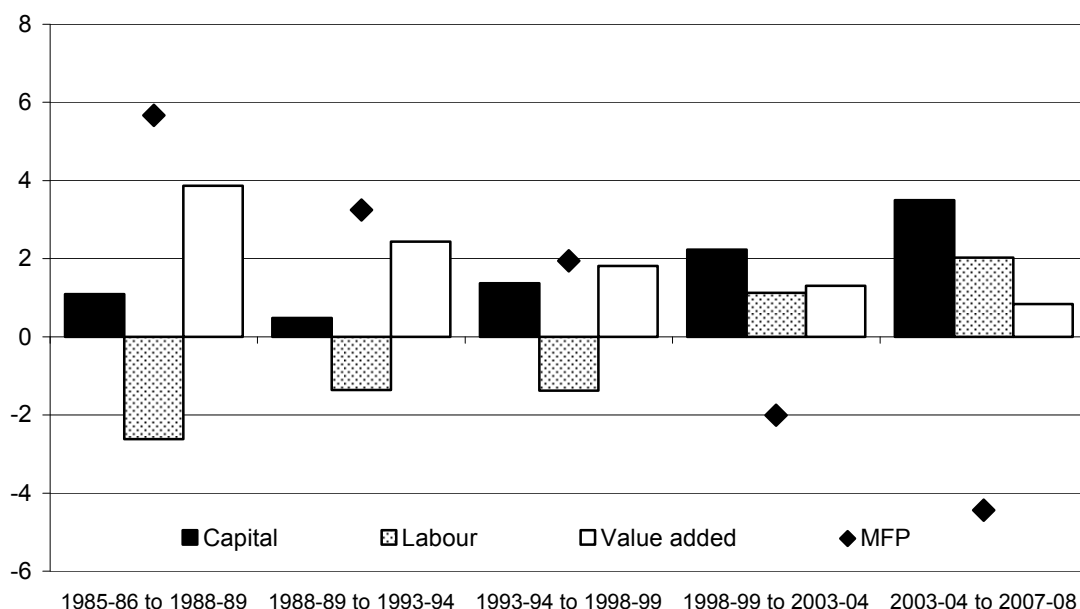
Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

While there is typically a strong ‘bounce back’ in value added following particularly poor rainfall years, the timing of these events relative to the officially defined productivity cycles for the market sector as a whole has resulted in a drag on overall productivity in the 2003-04 to 2007-08 cycle. It is notable that agricultural MFP growth was around 14 per cent in 2008-09.

***Electricity, gas, water & waste services experienced significant capital expansion and low value added growth***

Another sector exhibiting strong declines in MFP since 1998-99 is Electricity, gas, water & waste services (EGW&WS). This was one of the industries to have exhibited the largest productivity gains from the economic reforms in the 1980s and 1990s, but has since gradually declined to have the lowest MFP growth in the most recent cycle, at -4.4 per cent (figure A.6).

**Figure A.6 Value added, capital and labour input components<sup>a</sup> of MFP growth in EGW&WS, by productivity cycle**  
Average annual growth rate



<sup>a</sup> Capital and labour inputs are weighted by their relative shares of income.

Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

The combined effects of Australia’s growing population, increasing demand for energy consumption, and (recently) less reliable rainfall are giving rise to significant increases in the demand for capital (and labour) inputs in this sector with gross fixed capital formation (chain volume measure) in 2007-08 almost twice that in 2003-04 and almost four times that in 1995-96.

Like agriculture, MFP growth in EGW&WS has also been adversely affected by poor rainfall and reduced runoff this century — particularly the water industry, but electricity also (most notably hydro electricity). Between 2000-01 and 2007-08, value added in the water industry fell by some 17 per cent.<sup>6</sup>

In response to drought induced water shortages there has recently been a rapid increase in capital investment in desalination plants and in recycling and conservation capital. Lags in the realisation of the full benefits from these frequently large and complex investments are likely to have further depressed measured productivity growth in this sector.

<sup>6</sup> Based on ANZSIC 1993 data underlying the 2007-08 ABS industry MFP dataset — estimates for water are combined with those for waste services under ANZSIC 2006 based estimates underlying the 2008-09 ABS industry MFP dataset.

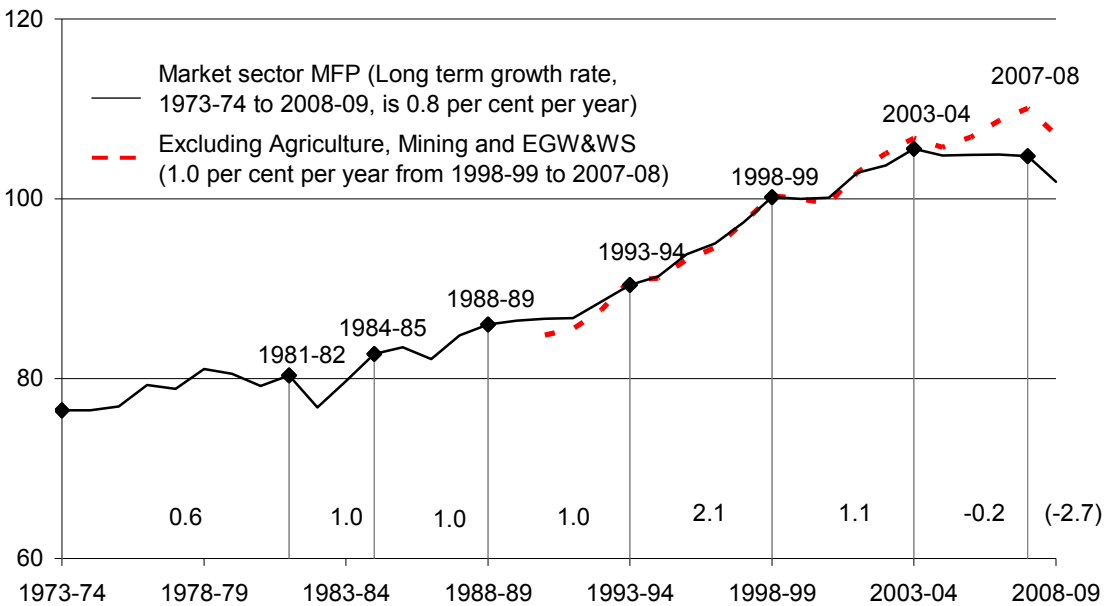
This raises the issue of the effect on measured productivity of actions taken to assure security or continuity of supply — an issue relevant to both water and electricity. In the simplest case, actions to ensure continuity of supply may involve investment in extra capacity that may be excess to business-as-usual requirements but would be needed during disruptions or emergencies. Continuity of supply can be considered a quality aspect of output but it is generally not measured in productivity calculations (quality adjustments are measured for only a few products, such as motor vehicles and computers). Given this, actions taken to ensure continuity of supply may decrease measured productivity if they increase capital without any commensurate increase in measured output.

*The three sectors collectively had a large impact on MFP growth*

Once the influence of these three ‘special’ sectors is removed from the market sector aggregate, average annual MFP growth in the 2003-04 to 2007-08 cycle rises to 0.8 per cent (compared with -0.2 per cent for the full market sector) — a full 1 percentage point per year higher, and equal to the long-term average (figure A.7). Commission estimates indicate that these three sectors accounted for almost 80 per cent of the recent decline in MFP growth relative to the 1998-99 to 2003-04 cycle.

**Figure A.7 Market sector<sup>a</sup> MFP, and the impact of poorer performing sectors, productivity cycles, 1973-74 to 2008-09**

Index 1999-2000 = 100 and per cent per year



<sup>a</sup> The market sector consists of 12 selected industries (ANZSIC06 Divisions A to K and R).

Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).



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Despite the poor productivity performance of the market sector over the 2003-04 to 2007-08 productivity cycle, *gross domestic income* has grown strongly (figure A.1 in section A.1), largely through strong growth in capital and labour inputs and exceptionally strong growth in the terms of trade. The irony of this is that the major driver of the terms of trade, the resources boom, is also a major cause of the recent poorer than usual MFP growth in the mining sector.

## **A.4 Most recent productivity results**

While MFP growth is best interpreted over productivity cycles, recent annual productivity estimates are of interest and relevance to a general discussion of economic performance, even though they may be subject to revision and do not yet constitute a complete cycle.

The most recent MFP estimates available are for 2008-09 (the 2009-10 estimates will not be released by the ABS until late October 2010). In addition, quarterly estimates for labour productivity for the entire economy are available for 2009-10 — these estimates, together with data on value added, hours worked and capital expenditure, provide some indication of likely MFP growth in 2009-10.

### **MFP growth in 2008-09**

Australian market sector MFP fell abruptly in 2008-09 by -2.7 per cent, the largest recorded drop in 25 years and one in which the global financial crisis clearly played a role. Value added growth was -0.3 per cent, with growth in inputs (weighted by income shares) of just below zero for hours worked and 2.5 per cent for capital.

Estimates of MFP growth during this period are currently not available for most OECD countries. However, similar MFP growth rates to that for Australia have been reported by the national statistics agencies of the Netherlands (-2.0 per cent in 2009), Canada (-2.2 per cent in 2009) and New Zealand (-3.1 per cent in year ended March 2009).<sup>7</sup> Compared with Australia, these countries had considerably larger falls in value added and hours worked. Capital growth was less in New Zealand than in Australia and was negative in Canada and the Netherlands.

A number of Australian industry sectors exhibited very poor MFP growth in 2008-09 — Mining, Transport, postal & warehousing, Manufacturing, Construction, and EGW&WS (table A.2)

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<sup>7</sup> Sourced from Statistics Netherlands (2010), Statistics Canada (2010) and Statistics New Zealand (2010).

**Table A.2 Growth in MFP by industry and its components, 2008-09**

Per cent per year

	<i>MFP</i>	<i>Value added</i>	<i>Capital<sup>b</sup></i>	<i>Labour<sup>b</sup></i>
Agriculture, forestry & fishing	14.1	16.2	0.8	1.1
Mining	-8.9	2.2	9.2	2.9
Manufacturing	-5.4	-6.2	1.6	-2.4
Electricity, gas, water & waste services	-3.3	5.0	4.3	4.3
Construction	-4.6	-1.8	1.9	1.1
Wholesale trade	-1.0	1.6	1.6	1.1
Retail trade	2.5	1.4	1.5	-2.6
Accommodation & food services	-0.1	-0.4	1.3	-1.5
Transport, postal & warehousing	-5.9	-1.0	2.5	2.8
Information, media & telecommunications	-3.1	-1.8	2.8	-1.4
Financial & insurance services	-1.8	-1.5	1.1	-0.7
Arts & recreation services	2.7	6.2	1.4	2.0
<b>Market sector<sup>a</sup></b>	<b>-2.7</b>	<b>-0.3</b>	<b>2.5</b>	<b>-0.0<sup>c</sup></b>

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in the table. <sup>b</sup> Capital and labour inputs are weighted by their relative shares of income. <sup>c</sup> Actual value was -0.03.

Source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010).

A notable exception is Agriculture, forestry & fishing, for which MFP growth was around 14 per cent in 2008-09 — illustrative of a ‘bounce-back’ in value added following particularly poor rainfall years. ‘Bounce-backs’ of this size are not atypical, with MFP growth of 26 per cent in 2003-04 after low rainfall in 2002-03.

While the issues discussed above in respect of EGW&WS and Mining remain relevant to the 2008-09 year, the global financial crisis also played a major role in the poor MFP outcome for the market sector as a whole. Value added declined significantly in some sectors — for example, Manufacturing; Financial & insurance services; Information, media & telecommunications; and Construction — without a commensurate decline in either the capital base or in labour. In the short-term, firms generally do not fully adjust inputs to downturns in demand — they keep underutilised equipment and tend to ‘hoard’ labour (particularly skilled labour) in anticipation of an upturn.

Value added in the market sector fell by 0.3 per cent in the year. Hours worked fell by a smaller amount (less than 0.1 per cent, and only just below zero when weighted by its income share) and capital services grew by over 5 per cent in the year (2.5 per cent when weighted by its income share). It is the strong growth in capital services together with the decline in value added that has given rise to the negative MFP growth. However, on a positive note, the strong increase in capital services suggests some confidence in future economic growth in aggregate and at the industry sector level.

## Prospective MFP growth in 2009-10

While the most recent MFP estimates available are for 2008-09, estimates for 2009-10 are available for labour productivity (LP). Trends in LP growth and MFP growth can differ, but the components of LP growth can provide some insight into likely MFP growth. Growth in LP is equal to the sum of capital deepening (which is proportionate to the growth in the ratio of capital services to hours worked) and MFP growth. Therefore, early estimates of growth in LP, investment and hours worked can sometimes provide a useful indication of likely developments in MFP growth in advance of the release of official MFP growth estimates.

Table A.3 **LP growth and related variables, expanded market sector<sup>a</sup>, 2008-09 and 2009-10**  
Per cent per year

<i>Growth in:</i>	2008-09 <sup>b</sup>	2009-10 <sup>c</sup>
<i>Expanded market sector</i>		
Labour productivity	0.3	1.8
GDP <sup>d</sup>	-0.1	1.6
Hours worked	-0.5	-0.2
Investment <sup>e</sup>	7.1	-3.1
Capital services	6.0	na
MFP	-2.8	na

<sup>a</sup> The expanded market sector consists of 16 selected industries (ANZSIC06 Divisions A to N, R and S).

<sup>b</sup> These 2008-09 estimates are from the last annual national accounts (ABS Cat. no. 5204.0, 2008-09) and associated experimental industry MFP dataset (ABS Cat. no. 5260.0.55.002, 2008-09) and are likely to be revised in the soon to be released annual national accounts for 2009-10. <sup>c</sup> These 2009-10 estimates are annual estimates from the ABS quarterly national accounts for June 2010 (Cat. no. 5206.0) and may be subject to revision in the soon to be released annual ABS national accounts for 2009-10 (Cat. no. 5204.0).

<sup>d</sup> GDP of the expanded market sector, not the whole economy. <sup>e</sup> The investment indicator is total private business investment (which does not include dwellings and ownership transfer costs).

*Sources:* Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2008-09*, Cat. no. 5260.0.55.002, Reissue 5 February 2010); ABS (*Australian System of National Accounts, 2008-09*, Cat. no. 5204.0); ABS (*Australian National Accounts: National Income, Expenditure and Product, June Quarter 2010*, Cat. no. 5206.0).

Based on quarterly estimates since 2008-09, LP growth for 2009-10 is expected to be around 1.8 per cent for the expanded market sector<sup>8</sup>, which is significantly higher than the 0.3 per cent in 2008-09 (table A.3). Also, capital deepening in the expanded market sector is likely to be lower in 2009-10 than 2008-09, given the

<sup>8</sup> The ABS does not release quarterly data for the market sector as defined in this paper, only for an expanded market sector that includes an additional four industries: Rental, hiring & real estate services, Professional, scientific & technical services, Administrative & support services and Other services. However, the direction of change in this series is generally correlated with that for the narrower market sector.

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apparent slowdown in investment<sup>9</sup> combined with a slower decline in hours worked. This suggests that the rise in LP growth is likely to be associated with a substantially better MFP growth outcome in 2009-10 than in 2008-09.

However, MFP growth in Mining and in EGW&WS might be expected to remain weak in 2009-10.

- In Mining, the research of Topp et al. (2008) suggests that while the capital lag effects can be expected eventually to raise measured MFP growth, the resource quality depletion effect is likely to continue to be an ongoing detractor from the productivity enhancing effects of technology and other efforts to improve business management and operations, with an uncertain longer-term net outcome.
- The EGW&WS sector continues to present productivity measurement challenges. Although recent rain may have increased dam storage levels, particularly in Queensland, water restrictions are still in place in many states. This quantity rationing of water means that there is still some downward pressure on urban water consumption and a large ‘bounce back’ in value added of the kind that occurred in Agriculture is therefore not likely. In addition new sources of water (such as desalination and recycling of water), which were put in place to ensure security of water supply, rely on significant new capital. This will keep productivity lower than would otherwise have been the case. However, the drivers of productivity in the various sub-industries within the EGW&WS sector differ. The Commission’s current research into productivity in these sub-industries will improve the understanding of productivity performance in the EGW&WS sector.

## **A.5 Productivity challenges in the future**

Productivity growth will be a major determinant of Australia’s future income growth and of how well the country meets long-term challenges — such as those relating to the environment, population ageing and recovery from the global financial crisis. At the same time, responses to these challenges will, in themselves, impact on productivity growth and on its measurement.

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<sup>9</sup> It should be noted, however, that negative investment growth does not necessarily imply negative capital services growth. Although investment levels have fallen, so long as the level of investment is greater than depreciation, there will still be an addition to the capital stock.

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If renewable energy targets are to be met, for example, there will need to be a change in the proportion of electricity supplied using different technologies. To the extent that renewable energy capital is relatively expensive per unit of output, an increase in the share of renewable energy will lead to lower measured MFP. While there may be a benefit in terms of reduced greenhouse gas emissions, that benefit is not currently accounted for in official MFP estimates. Similar considerations arise in respect of policy responses to the increasing demand for water in constrained natural supply conditions (fixed or declining rainfall). The introduction of desalination plants, additional recycling and conservation capital, and stringent quantity constraints, will continue to exert downward pressure on measured MFP.

An ageing population will increase demands on Australia's aged care and health care systems (PC 2005b). Many of these services are provided in the non-market sector of the economy, for which there are, as yet, no official MFP growth statistics (because of measurement difficulties). If the non-market sector share of the economy grows, measured market sector MFP growth will become less indicative of overall productivity in the economy. Population ageing can also affect aggregate productivity because average productivity levels differ across age groups. Empirical estimates suggest that, on average, a person's productivity levels initially increase with age before declining after middle age. However, the Commission found (PC 2005b) that there is currently insufficient evidence to confirm whether ageing per se will affect Australia's aggregate labour productivity prospects. This is because there is a variety of, sometimes offsetting, ways in which ageing could affect productivity. For example, the net effect on productivity depends on whether the gains from a reduced share of inexperienced (and less productive) young workers are outweighed by the falls in productivity associated with a growing share of the oldest workers.

As noted earlier, the global financial crisis led to significant declines in demand in some sectors of the Australian economy in 2008-09. This fall in demand was associated with a decline in MFP growth because the decline in output occurred without a commensurate decline in either the capital base or in labour. Global recovery will help underpin growth in demand for Australian production and thereby support domestic productivity performance in general, and particularly through the utilisation of any residual excess capacity in the near term.

Whatever the measurement challenges, an increase in overall productivity depends on the performance of individual firms, and on the competitive pressures that result in better performing firms and industries prevailing over others. In its submission to the recent House of Representatives Economics Committee inquiry into productivity (PC 2009), the Commission identified three key platforms

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underpinning future productivity improvement — incentives (the external pressures and disciplines on organisations to perform well, including through competition); flexibility (the ability to make changes to respond effectively to market pressures); and capabilities (the human and knowledge capital, as well as infrastructure and institutions, needed to effect productivity enhancing changes). Appropriate policy initiatives will be needed in all these areas to enhance Australia's future productivity performance.

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## B 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 1998a, 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*.

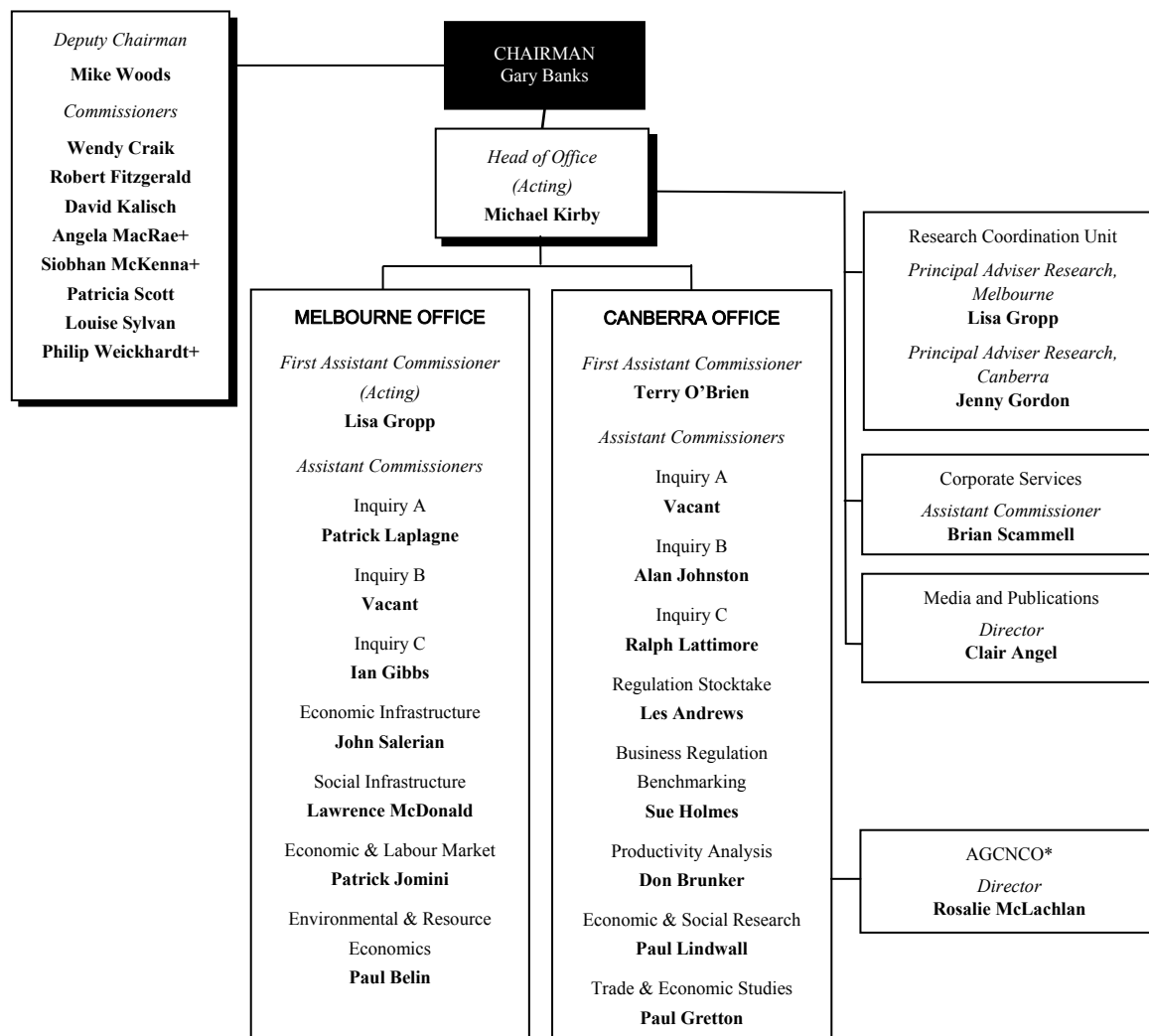
The Commission's structure and senior staff at 30 June 2010 are shown in figure B.1.

#### Commissioners

At 30 June 2010 there were ten members of the Commission, including the Chairman. Three Commissioners held part-time appointments.

Commissioner Neil Byron resigned with effect from 19 March 2010. Commissioner Judith Sloan's term of appointment expired on 16 April 2010.

**Figure B.1 Productivity Commission structure and senior staff, 30 June 2010**



+ Part-time Commissioners

\* Australian Government Competitive Neutrality Complaints Office

Patricia Scott was appointed a full-time Commissioner on 7 September 2009 for a period of five years. Ms Scott had been Secretary of the Department of Broadband, Communications and the Digital Economy. She had earlier been Secretary of the Department of Communications, Information Technology and the Arts, and Secretary of the Department of Human Services. Ms Scott had also held senior positions in the Department of the Prime Minister and Cabinet and the Department of Industry, Tourism and Resources. Before joining the Australian Public Service in 1990, Ms Scott was an economist at the Reserve Bank. She has a Bachelor of



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Economics from the Australian National University and a Master of Economics from Macquarie University.

Biographical information on other Commissioners is available on the Commission's website and their terms of appointment are listed in table B1.1 of attachment B1.

### **Associate Commissioners**

At 30 June 2010 six Associate Commissioner appointments were current (table B1.2 of attachment B1).

On 16 November 2009 Mr Andrew Stoler was appointed on a part-time basis to assist with the commissioned study on Bilateral and Regional Trade Agreements. Mr Stoler is the Executive Director of the Institute for International Trade and is an Adjunct Professor of International Trade at the University of Adelaide. He is a Governor of the American Chamber of Commerce in Australia and is a member of a number of international advisory committees on international trade. Mr Stoler has served as a Deputy Director-General at the WTO and has been a senior trade representative.

On 9 December 2009 Dr Warren Mundy was appointed on a part-time basis for the Business and Consumer Services commissioned study, which is part of the five-year rolling review of regulatory burdens on business. Dr Mundy is Director of Bluestone Consulting, advising on infrastructure services, and especially airports and seaports. He is also Deputy Chair of Airservices Australia. For a number of years he was the principal regulatory and economic adviser to the Australian Council for Infrastructure Development. He has held senior executive roles in the airports industry in both Australia and Europe and has worked for the Reserve Bank and the WA Treasury Corporation.

On 22 February 2010 Dr Cliff Samson was appointed on a part-time basis to assist with the inquiry into Rural Research and Development Corporations. Dr Samson has previously held senior positions in the Department of Agriculture, Fisheries and Forestry, including Deputy Secretary of the Department, Executive Director of the Australian Quarantine and Inspection Service and Executive Director of the Bureau of Rural Sciences. Dr Samson has also been a member of the National Rural Advisory Committee, the Wheat Export Authority, the Advisory Board of the Australian Centre for Intellectual Property in Agriculture and was for several years the Government Director on the Board of the Grains Research and Development Corporation.

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On 1 April 2010 Mr Paul Coghlan was re-appointed on a part-time basis to assist with the current stage of the Commission's work stream on Performance Benchmarking of Australian Business Regulation, focusing on benchmarking of regulations relating to land development approvals and planning and zoning. Mr Coghlan had previously assisted the Commission in the benchmarking of food safety regulation and occupational health and safety regulation. Mr Coghlan has extensive experience in regulatory review activities, including as a former head of the Office of Regulation Review. He has previously been appointed as a part-time Associate Commissioner for the commissioned study on Standard Setting and Laboratory Accreditation conducted in 2006.

Mr John Walsh was appointed on a part-time basis with effect from 14 April 2010 for the duration of the inquiry into disability care and support. Mr Walsh is a Partner in the Advisory Practice of PricewaterhouseCoopers and is part of the PricewaterhouseCoopers National Health practice, with consulting responsibilities in the areas of health, disability and accident compensation — particularly lifetime care and support. Mr Walsh was a member of the Disability Investment Group, which reported to Government in 2009 on funding ideas to help people with disability and their families access greater support and plan for the future.

On 15 May 2010, Ms Sue Macri AM was appointed on a part-time basis to assist with the inquiry into Caring for Older Australians. Ms Macri has more than a decade of experience as a Director of Nursing/ CEO in the private hospital system, and has represented the aged care industry at both a state and national level on Ministerial working parties, committees and reviews. In 2007 she was named a Member in the General Division of the Order of Australia, for service to the community in the area of aged care, particularly in the review and development of industry standards, accreditation and future management practices, and to nurse education and training.

Associate Commissioner appointments completed during 2009-10 are listed in table B1.3 of attachment B1.

## **Staff**

The average staffing level during 2009-10 was 188 compared to 184 in 2008-09.

The Commission recruited 25 staff during the year, including seven through its graduate recruitment program. Staff turnover was approximately 6 per cent.

Statistical information on staffing is provided in tables B1.4 to B1.6 of attachment B1.

## Outcome objective and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 114 — are summarised in table B.1. An agency resource statement for 2009-10 is included at Attachment B2. Performance information in respect of this outcome is provided in appendix C.

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

	<i>Budget *</i> 2009-10 \$'000	<i>Actual</i> 2009-10 \$'000	<i>Variation</i> \$'000
<b>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</b>	(a)	(b)	(a-b)
<b>Program 1.1 Productivity Commission</b>			
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	34 388	33 065	1 323
Revenues from independent sources (Section 31)	617	617	-
Expenses not requiring appropriation in the Budget year	35	35	-
<b>Total for Outcome 1</b>	<b>35 040</b>	<b>33 717</b>	<b>1 323</b>
	2008-09	2009-10	
Average Staffing Level (number)	184	188	

\* Full-year budget, including any subsequent adjustment made to the 2009-10 Budget

## 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 outcome objective. 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), Deputy Chairman, 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 Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners, two research Assistant Commissioners and the Media and Publications Director.

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

## **Accountability**

Management Committee'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
  - a Commissioner designated with responsibility for competitive neutrality issues 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 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 2009-10. The Chairman's certification in respect of fraud control is at Attachment B3.

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

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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 C provides an account of the Commission's performance.

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 2009-10 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2009-10 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix C. Details of the Commission's appearances at Senate Estimates hearings in 2009-10 are included in appendix C in response to a further suggestion by the Committee.

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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 the following.

*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. During 2009-10 the Commission continued to enhance the structure and presentation of website content, with a particular focus on accessibility for participants in the Commission's public inquiry into a long-term disability care and support scheme.

*Information technology:* Maintenance, review and upgrade of Commission ICT infrastructure has continued. Major upgrades were made to the Commission's server environment and web infrastructure in 2009-10.

*Human Resources:* During 2009-10, the Commission reviewed its employee performance management program. The Commission continued a system of performance appraisal for staff and senior executives, including 'upwards appraisal' for Commissioners, intended to enhance individual development and improve organisational performance. The Commission's staff development program also had a particular focus on leadership development during 2009-10.

*Internal Audit:* The Commission re-engaged an accounting firm, PKF, to conduct a program of internal audits over a three-year period commencing in 2009-10. Internal audits conducted in 2009-10 focused on fraud risk assessment and IT disaster recovery. 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

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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 flexible working arrangements.

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. Seven new employees were engaged during 2009-10 through the Commission's graduate recruitment program.

An important input to workforce planning is the information obtained from departing employees through exit questionnaires and, in many cases, personal interviews 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**

Commissioners 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 18 Senior Executive Service (SES) employees are employed under 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 total remuneration is set out in Note 12 to the Financial Statements (appendix G).



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During 2009-10, a new enterprise agreement under the *Fair Work Act 2009* was negotiated with the Commission's non-SES employees. The agreement has a nominal expiry date of 30 June 2011. The levels of remuneration and terms and conditions of employment of approximately 170 employees are covered by this agreement.

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

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

## **Performance management and pay**

All employees participate in the Commission's performance management scheme. The scheme seeks to:

- clarify the understanding by individual employees of their work tasks, their responsibilities and the performance standards expected (through performance agreements)
- provide feedback on performance and improve communication between supervisors and their staff (through performance appraisals)
- provide a basis for determining 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.

Under the Commission's enterprise agreement, all salary increases are conditional upon employees being rated fully effective in their performance appraisal. Senior Executive remuneration continues to include potential to receive a performance related bonus, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. For Principal Executive Officers, bonuses of up to 15 per cent of total remuneration are available within the Remuneration Tribunal framework.

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Performance bonuses paid for 2009-10 are summarised in table B.2.

**Table B.2 Performance bonuses paid for 2009-10**

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	3	3 024	1 008
Staff Level 2	6	5 478	913
Staff Level 3	12	15 657	1 305
Staff Level 4	14	25 419	1 816
SES	19	206 139	10 849
Principal Executive Officers	7	121 049	17 293
<b>Total</b>	<b>61</b>	<b>376 766</b>	<b>6 176</b>

### **Consultative arrangements**

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The composition of the PCCC was renewed in 2010 in accordance with the relevant provision of the new enterprise agreement. From February 2010 the PCCC comprised five elected employee representatives, a CPSU representative, and four management representatives. The PCCC met on several 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 most recent survey was conducted in October 2008 and had a 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 2009-10 was 2 per cent of the annual salary budget. This expenditure related to:

- 148 employees who undertook a total of 568 days of specific training and development
- 79 attended general development programs
- 8 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications
- 1 employee received assistance as part of a Post Graduate Study Award.

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 four times during 2009-10.

The Commission has developed health and safety management arrangements in consultation with staff. During 2009-10 Comcare, the agency responsible for workplace safety, rehabilitation and compensation in the Commonwealth jurisdiction, conducted an investigation into the health and safety management arrangements in several agencies. Comcare found that the Commission complies with the requirements of the relevant legislation, and that the Commission had demonstrated a commitment to consultation in the development of health and safety management arrangements, including having adequate processes in place to review and vary the arrangements and resolve disputes in relation to OHS matters, should they arise.

No other 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 2009-10.

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OHS activities during the year included:

- Commission-funded flu vaccinations (take up rate in 2009-10 was around 56 per cent)
- ergonomic work station assessments (83 were completed, including 26 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
- workplace health-related seminars.

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

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation rate. The Commission's rate for 2009-10 was assessed at approximately one-eighth 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. Twenty employees or their families utilised the service in 2009-10.

## **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 enterprise agreement, equity and diversity plan and related policies — to promote workplace diversity.

## **Commonwealth Disability Strategy**

The Commonwealth Disability Strategy is designed to help agencies improve access for people with disabilities to their services and facilities. Attachment B3 provides a summary of the Commission's performance in this area during 2009-10.

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## 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. Revenue from government increased in 2009-10 to \$34.4 million (\$31.6 million in 2008-09). Revenue from other sources was consistent with the previous year at \$0.7 million.

Additional funding was provided to the Commission in the 2009-10 Budget, as part of the measure relating to implementation of the COAG federal financial framework. Further information on that funding is provided in the 2009-10 Treasury Portfolio Budget Statements.

Operating expenses also increased in 2009-10 to \$33.7 million (\$31.8 million in 2008-09). The major expenses in 2009-10 were \$25.2 million in respect of employee expenses, \$7.4 million relating to supplier payments, and \$1.1 million in asset depreciation, amortisation and related expenses.

The operating result for 2009-10 was a \$1.3 million surplus (\$0.6 million in 2008-09).

Table B.1 provides a summary of financial and staffing resources. The agency resource statement is provided at Attachment B2. The audited financial statements for 2009-10 are shown in appendix G.

## Other information

### Purchasing

The Commission applies the Commonwealth Procurement Guidelines. The Commission's purchases of goods and services during 2009-10 were consistent with the 'value-for-money' principle underpinning those guidelines.

The Commission did not enter into any contracts or standing offers that were exempt from being published on AusTender. Contracts of \$100 000 or more let during 2009-10 included a provision for the Auditor-General to have access to the contractor's premises if required.

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## 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 2009-10, 16 new consultancy contracts were entered into involving total actual expenditure of \$49 232. There were no ongoing consultancy contracts from the previous year.

Table B.3 provides information on expenditure on consultants in the five years to 2009-10.

Further information on consultancies, as required by government reporting requirements, is provided in Attachment B4.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website [www.tenders.gov.au](http://www.tenders.gov.au).

**Table B.3 Expenditure on consultancies, 2005-06 to 2009-10**

	2005-06	2006-07	2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	308	229	493	124	49

## Special payments

The Commission made a number of special payments during 2009-10. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

*Consortium memberships:* \$23 354 for membership of the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for 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.

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*Research partnerships:* \$16 500 to the University of Canberra for an ARC partnership project on social and fiscal policy implications of an ageing population; and \$22 000 to the University of NSW for an ARC partnership project on productivity measurement in infrastructure, services, and research and development.

*Conference sponsorships:* \$5500 to the Australian Agricultural and Resource Economics Society National Conference 2010; \$11 000 for the Australian Conference of Economists 2009; \$2200 to the University of Western Australia for the 2009 PhD Conference in Economics and Business; \$27 500 to the 2009 Economic and Social Outlook Conference; and \$5500 to the Econometrics Society Australasian Meeting 2009 Conference.

*Awards:* \$1200 to the 2009 top student, 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 Microeconomics student at La Trobe University.

## **Legal services**

Total expenditure on legal services in 2009-10 was \$19 660. 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.

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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. Recent Commission reports on government drought support arrangements and market mechanisms for recovering water in the Murray-Darling Basin are further examples of work undertaken requiring 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, social and/or environmental. The transparency of its processes provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. Consequently, a broad range of views and circumstances are taken into account, in keeping with the ESD principle that 'decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations'.

The 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.

## **Freedom of information**

No requests were received in 2009-10 for access to information under the *Freedom of Information Act 1982*. A statement encompassing formal reporting requirements is provided in Attachment B5.



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## **Advertising and market research**

The Commission does not undertake ‘advertising campaigns’. However, 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 \$145 490 was paid for advertising (including recruitment advertising) in 2009-10 to Adcorp Australia Ltd.

## **Publications and submissions**

Appendix F lists all the Commission’s publications in 2009-10.

## **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 B6.

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>

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

# Attachment B1

## Commissioner and employee statistics

**Table B1.1 Chairman and Commissioners, 30 June 2010**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2008	19 May 2013
Mr M C Woods (Deputy Chairman)	17 Apr 2006	16 Apr 2011
Dr W Craik AM (C)	4 Jun 2009	3 Jun 2014
Mr R Fitzgerald AM (C)	27 Jan 2009	26 Jan 2014
Mr D Kalisch (C)	4 Jun 2009	3 Jun 2014
Ms A MacRae (M) (p/t)	19 Mar 2007	31 Oct 2010
Ms S McKenna (M) (p/t)	4 Jun 2009	3 Jun 2014
Ms P Scott (C)	7 Sep 2009	6 Sep 2014
Ms L Sylvan (C)	1 Aug 2008	31 July 2013
Mr P Weickhardt (M) (p/t)	4 Dec 2008	3 Dec 2013

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

**Table B1.2 Part-time Associate Commissioners, 30 June 2010**

	<i>Inquiry/Study</i>	<i>Period of appointment<sup>a</sup></i>	
		<i>From</i>	<i>To</i>
Mr A Stoler	Bilateral and Regional Trade Agreements.	16 Nov 2009	15 Dec 2010
Dr W Mundy	Annual Review of Regulatory Burdens on Business – Business and Consumer Services	9 Dec 2009	30 Sep 2010
Mr P Coghlan	Performance Benchmarking of Australian Business Regulation	1 Apr 2010	31 May 2011
Dr C Samson	Rural Research and Development Corporations	22 Feb 2010	14 Mar 2011
Mr J Walsh	Disability Care and Support	14 Apr 2010	13 Oct 2011
Ms S Macri AM	Caring for Older Australians	15 May 2010	31 May 2011

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

**Table B1.3 Part-time Associate Commissioners completing appointments during 2009-10**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Prof A Fels AO	Regulation of Director and Executive Remuneration in Australia	17 Mar 2009	16 Jan 2010
Mr D Trewin AO	Contribution of the Not-for-Profit Sector	16 Mar 2009	26 Feb 2010
Mr P Coghlan	Performance Benchmarking of Australian Business Regulation	2 Feb 2009	31 Mar 2010

**Table B1.4 Employees by location and gender, 30 June 2010**

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	1	1	0	0	0	0	1	1
SES Band 2	1	0	1	1	1	2	2	1	3
SES Band 1	0	7	7	1	6	7	1	13	14
Staff Level 4	9	14	23	6	16	22	15	30	45
Staff Level 3	20	10	30	6	9	15	26	19	45
Staff Level 2	20	15	35	5	11	16	25	26	51
Staff Level 1	14	4	18	9	3	12	23	7	30
<b>Total<sup>b</sup></b>	<b>64</b>	<b>51</b>	<b>115</b>	<b>28</b>	<b>46</b>	<b>74</b>	<b>92</b>	<b>97</b>	<b>189</b>
Corresponding totals at 30 June 2009 <sup>a</sup>	55	49	104	27	47	74	82	96	178

<sup>a</sup> Totals exclude 8 inoperative employees at 30 June 2009. <sup>b</sup> Totals exclude 7 inoperative employees at 30 June 2010; 2010 totals also include 1 acting SEB3, 1 acting SL4, and 4 acting SL2s.

**Table B1.5 Employees by employment status and gender, 30 June 2010**

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	2	0	2	1	0	1	3	0	3
SES Band 1	1	0	1	13	0	13	14	0	14
Staff Level 4	9	6	15	28	2	30	37	8	45
Staff Level 3	23	3	26	19	0	19	42	3	45
Staff Level 2	15	10	25	24	2	26	39	12	51
Staff Level 1	17	6	23	7	0	7	24	6	30
<b>Total<sup>b</sup></b>	<b>67</b>	<b>25</b>	<b>92</b>	<b>93</b>	<b>4</b>	<b>97</b>	<b>160</b>	<b>29</b>	<b>189</b>
Corresponding totals at 30 June 2009 <sup>a</sup>	59	23	82	93	3	96	152	26	178

<sup>a</sup> Totals exclude 8 inoperative employees at 30 June 2009. <sup>b</sup> Totals exclude 7 inoperative employees at 30 June 2010 ; 2010 totals also include 1 acting SEB3, 1 acting SL4, and 4 acting SL2s.

**Table B1.6 Employees by level and reason for separation, 2009-10**

Level	Promotion	Transfer	Resignation	Invalidity			Other	Total
				Retirement	VRP <sup>a</sup>			
SES	0	0	1	0	0	0	1	
Staff Level 4	0	2	0	1	0	0	3	
Staff Level 3	0	2	2	0	0	0	4	
Staff Level 2	0	1	3	0	0	0	4	
Staff Level 1	0	0	0	0	0	0		
<b>Total</b>	<b>0</b>	<b>5</b>	<b>6</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>12</b>	
Corresponding totals at 30 June 2009	4	10	14	0	0	0	28	

<sup>a</sup> Voluntary Redundancy Package

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## Attachment B2

### Agency Resource Statement — 2009-10

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	<i>Actual Available Appropriation 2009-10</i>	<i>Payments Made 2009-10</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
<b>Ordinary Annual Services</b>			
<b>Departmental appropriation<sup>1</sup></b>			
Prior year Departmental appropriation	5 727	—	—
Departmental appropriation 2009-10	34 88	29 914	10 201
<b>S.31 Relevant agency receipts<sup>3</sup></b>	768	768	—
<b>Total ordinary annual services</b>	<b>40 883</b>	<b>30 682</b>	<b>10 201</b>
<b>Other services</b>			
Departmental non-operating <sup>2</sup>			
Previous years' outputs	868	868	—
<b>Total other services</b>	<b>868</b>	<b>868</b>	<b>—</b>
<b>Total Resourcing and Payments</b>	<b>41 751</b>	<b>31 550</b>	<b>10 201</b>

<sup>1</sup> Appropriation Bill (No.1) 2009-10 and Appropriation Bill (No.3) 2009-10.

<sup>2</sup> Appropriation Bill (No.2) 2009-10 and Appropriation Bill (No.4) 2009-10.

<sup>3</sup> Receipts received under section 31 of the *Financial Management and Accountability Act 1997*.

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## Attachment B3



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

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*

26 August 2010

### **Annual Report 2009-10 – Fraud Control Certification**

In accordance with Guideline 2.8 of the *Commonwealth Fraud Control Guidelines 2002* (the Guidelines), issued pursuant to Regulation 16A 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 that reads "G. Banks".

Gary Banks AO  
Chairman

## Attachment B4

### 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. No concerns were noted in reports.</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 April 2010.

(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 Enterprise 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	<p>Percentage of recruitment information requested and provided in:</p> <ul style="list-style-type: none"> <li>• accessible electronic formats</li> <li>• accessible formats other than electronic.</li> </ul> <p>Average time taken to provide accessible information in:</p> <ul style="list-style-type: none"> <li>• electronic format</li> <li>• formats other than electronic</li> </ul>	<p>All vacancies are advertised on the <i>APSJobs</i> website and on the Commission's website. Most vacancies are advertised in the press.</p> <ul style="list-style-type: none"> <li>• 100 per cent available.</li> <li>• None requested.</li> </ul> <ul style="list-style-type: none"> <li>• Immediate. One electronic file request received for screen reader – provided by email within 24 hours.</li> <li>• Dependent on request. Information has been sourced on the procedures for requesting alternative formats such as Braille and audio and is available should a request be received.</li> </ul>
Agency recruiters and managers apply the principle of 'reasonable adjustment'	Percentage of recruiters and managers provided with information on 'reasonable adjustment'	<p>Where relevant, selection panels are provided with this information.</p> <p>Managers receive information as required. Folders containing the list of candidates includes a reference to access and equity considerations, including 'reasonable adjustment'.</p> <p>A register has also been developed to record all requests for information in formats such as Braille and audiocassette. No requests were received during 2009-10.</p>
Training and development programs consider the needs of employees with disabilities	Percentage of training and development programs that consider the needs of employees with disabilities	Training nomination forms include a section requesting information on the additional needs of employees. It is monitored by the training administrator.

(continued next page)

<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 Equity and Diversity Plan, Access and Equity and Disability Action Plans.
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 2009-10.

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## Attachment B5

### 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 legal advice and 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, the Chairman must ensure that an open, competitive tendering process is used in selecting the consultant. The amount prescribed by the regulations is \$80 000, which aligns with the mandatory open tender threshold set out in the procurement guidelines.

### Purposes

The main purpose for which consultants were engaged in 2009-10 was to referee particular pieces of work.

### Consultancies over \$10 000

There were no consultancies let in 2009-10 valued at \$10 000 or more.

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## **Attachment B6**

### **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 summon 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.

The Commission periodically invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program. The Commission also 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 project records including information circulars, issues papers, project guidelines, draft and final reports, submissions, participant correspondence and public hearing transcripts
- documents relating to 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 CanPrint Communications include:

- the Commission's annual report series
- final inquiry reports, research reports and research papers

- 
- 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.

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 B7

### 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 B
s.10(2) matters referred to the Commission	appendix D
s.10(4) competitive neutrality complaints	37

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

- *Trade & Assistance Review 2009-10*



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## C Program performance

**The Productivity Commission's designated role is to contribute to well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards. It performs this role by undertaking independent and transparent analysis from a community-wide perspective.**

**The Commission's four main activity streams are 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 main activities and related performance in 2009-10.**

### **Objectives for performance assessment**

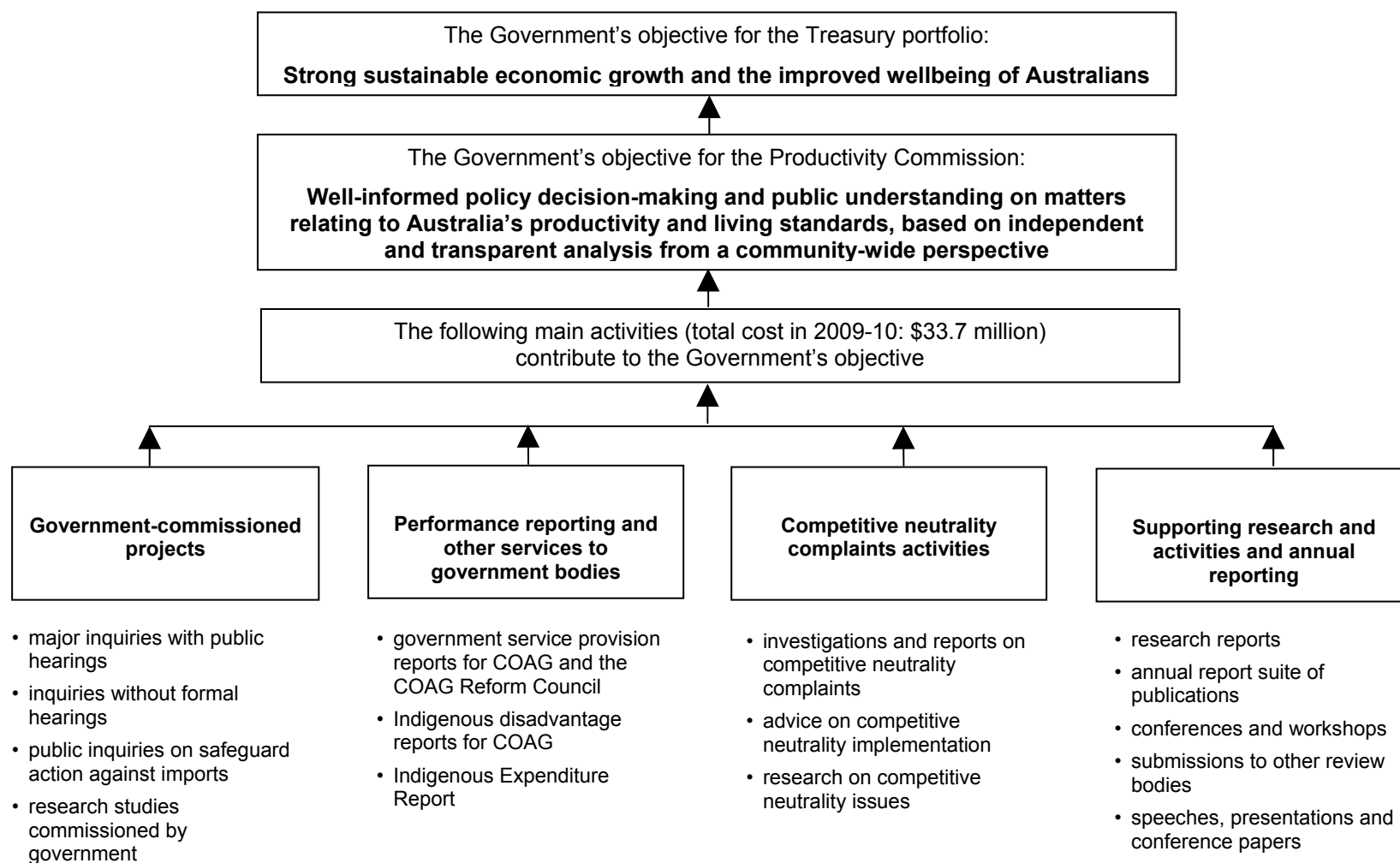
The Government's outcome objective against which the Commission's overall performance is to be assessed is:

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

The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. These can be classified into four main activity areas:

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

Figure C.1 **Productivity Commission main activities 2009-10**



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The Commission's overall 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, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

### **Commission activities**

All of the Commission's activities are directed at meeting the policy needs of government, or otherwise fulfilling statutory requirements. Main activities are:

- undertaking individual projects specifically commissioned by government, including commissioned projects of an inquiry and research nature relating to regulatory issues
- meeting standing research, investigatory and advisory functions nominated by government
- 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.

#### *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 feedback 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 in scope, or 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.

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## *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. As an integral part of the national performance reporting system, the Steering Committee informs Australians about services provided by governments and enables performance comparisons and benchmarking between jurisdictions and within a jurisdiction over time (SCRGSP Terms of Reference). The Steering Committee is required to:
  - measure and publish annually data on the equity, efficiency and cost effectiveness of government services through the *Report on Government Services*
  - produce and publish biennially the *Overcoming Indigenous Disadvantage* report
  - collate and prepare performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council and the broader national performance reporting system
  - initiate research and report annually on improvements and innovation in service provision, having regard to the COAG Reform Council’s task of highlighting examples of good practice and performance, and perform any other related tasks referred to it by COAG
- secretariat and research services for the Indigenous Expenditure Report Steering Committee. The Steering Committee aims to contribute to better policy making and improved outcomes for Indigenous Australians by reporting on expenditure on Indigenous-specific and mainstream services which support Indigenous Australians
- 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 that an Australian Government business is not conducted in accordance with 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*).

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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 that apply across its main activities (box C.1). Subsequent sections of this appendix report against these indicators for each of its main activities. Feedback surveys undertaken, use of Commission work 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.

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### Box C.1 Performance indicators for the Commission

<i>Main areas of activity</i>	<i>Key indicators</i>
Government-commissioned projects	Projects, reports and associated activities:
Performance reporting and other services to government bodies	<ul style="list-style-type: none"><li>• of a high quality</li></ul>
Competitive neutrality complaints activities	<ul style="list-style-type: none"><li>• useful to stakeholders</li></ul>
Supporting research and activities and statutory annual reporting	<ul style="list-style-type: none"><li>• timely.</li></ul>

First, the effectiveness with which the Commission's activities 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 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 C.2).

Third, the Commission has to give priority to certain projects 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 projects 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 (unlike its draft reports), although the *Productivity Commission Act 1998* 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

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## Box C.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.

- In April 2010, the Australian Government drew on recommendations from the Commission's 2006 report on Consumer Product Safety when designing a national product safety website for consumers (Emerson 2010).
- Recommendations from the Commission's 2000 *Review of General Tariff Arrangements* were also drawn on by the Australian Government when introducing changes to the system of tariff concessions for importers, brokers and manufacturers (Tanner, Carr and O'Conner 2010).
- The Commission's 2004 report on National Workers' Compensation and Occupational Health and Safety Frameworks (PC 2004e) continued to be used throughout the year. For example, the Australian Government used the report extensively to inform its review of self-insurance arrangements under the Comcare scheme (DEEWR 2009). The report was also used extensively within the consultation RIS for the model OHS Act that was released in September 2009 by the Australian, State, Territory and New Zealand Workplace Relations Ministers' Council (WRMC 2009).
- Commission estimates of the cost to Australia of an outbreak of foot and mouth disease (PC 2002c) continued to inform debate throughout the year about control strategies and protocols in this area (see, for example, Burke 2010b; Gadd 2010).
- Past Commission reports on a range of subjects continued to inform the work of the Parliamentary Library. For example: a Research Paper in February 2010 on anti-siphoning legislation drew on analysis and findings in the Commission's 2000 inquiry into *Broadcasting*; a Bills Digest on infrastructure access from November 2009 drew on the Commission's 2001 *Review of the National Access Regime*; and a Background Note on aviation policy in February 2010 drew on analysis from the Commission's 1998 report on *International Air Services*.
- The Commission's 2004 report on the *Impacts of Native Vegetation and Biodiversity Regulations* (PC 2004c) featured prominently in recent discussion about the costs and benefits of land clearing regulations. In April 2010, a Senate Committee inquiry on native vegetation laws, greenhouse gas abatement and climate change measures drew extensively on the 2004 report and endorsed its recommendations in relation to landholder compensation arrangements (Senate Finance and Public Administration References Committee 2010).
- On 13 May 2010 the Australian Government introduced the *Food Standards Australia New Zealand Amendment Bill 2010*. The Bill implemented recommendations made by the Commission in its 2008 review of chemicals and plastics regulation (PC 2008I).

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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 2009-10 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 D.

This appendix reviews some broad-based indicators of Commission performance before reporting on each of its main activities against the indicators agreed under the Government's performance framework.

## **Feedback surveys**

The Commission has a rolling program of surveys and other initiatives to gather external feedback on a range of its activities. These surveys complement the feedback received through comments and submissions on draft reports, position papers, workshop papers and 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.

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

The Steering Committee for the Review of Government Service Provision has sought feedback on the usefulness of the Report on Government Services three-yearly until 2007 and used the feedback to increase the accountability of the Review. Survey results were reported in the 2007-08 Annual Report.

The feedback survey scheduled for 2010 was postponed pending the outcome of a review of the Steering Committee's Report on Government Services, commissioned by COAG in 2009. Outcomes of the review are discussed in the section on performance reporting below.

### *Other feedback*

As noted in chapter 2, the Commission continued to provide feedback opportunities through email, on-line survey forms, and survey forms included in publications or



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issued to participants in the Commission's public hearings. Much of the feedback received through these mechanisms this year was positive. Comments are passed to management and authors for consideration.

## **Commission projects and the work of the Federal Parliament**

The inquiries and reports which figured most prominently in federal parliamentary debate during 2009-10 were the Commission's reports on aged care trends, paid parental leave, executive remuneration, consumer policy and gambling. As noted in chapter 2, 86 Members of the House of Representatives and 41 Senators collectively referred to 43 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2009-10 parliamentary proceedings.

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

- Fourteen parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The 26 recent parliamentary committee reports listed in table C.1 referred to 20 different Commission outputs.
- People appearing at the hearings of parliamentary committees in 2009-10 referred to Commission outputs in more than 42 different topic areas.
- Research material provided to parliamentarians during 2009-10 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 19 different Commission outputs (table C.2). These included 12 inquiry and other commissioned research reports, several research papers and the Commission's 2008 submission to the Garnaut Climate Change Review.

### *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 2009-10 the ANAO drew on analysis and recommendations in the Commission's 2010 report on the contribution of the not-for-profit sector in Audit Report No. 40, *Application of the Core APS Values and Code of Conduct to Australian Government Service Providers*. The ANAO drew on findings and analysis concerning aged care regulation from the Commission's 2009 *Annual Review of Regulatory Burdens on Business* in Audit Report No. 5, *Protection of Residential Aged Care Accommodation Bonds*. Past Commission work on data envelope analysis was also drawn upon in Audit Report No. 8, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*.

**Table C.1 Use of Commission publications in parliamentary committee reports in 2009-10**

<i>Parliamentary Committee and report</i>	<i>Commission publication used</i>
Senate Standing Committee on Community Affairs, <i>National registration and accreditation scheme for doctors and other health workers</i> , August 2009	Research Report, <i>Australia's Health Workforce</i> , December 2006
Senate Standing Committee on Community Affairs, <i>Therapeutic Goods Amendment (2009 Measures No. 2) Bill 2009 [Provisions]</i> , August 2009	Research Report, <i>Chemicals and Plastics Regulation</i> , July 2008
Senate Economics Legislation Committee, <i>Renewable Energy (Electricity) Amendment Bill 2009 and a related bill [Provisions]</i> , August 2009	Submission, <i>What Role for Policies to Supplement an Emissions Trading Scheme?</i> , <i>Submission to the Garnaut Climate Change Review</i> , May 2008
Senate Rural and Regional Affairs and Transport References Committee, <i>Investment of Commonwealth and State funds in public passenger transport infrastructure and services</i> , August 2009	Annual Report Series, <i>Trade and Assistance Review 2007-08</i> , May 2009
Senate Environment, Communications, and the Arts Legislation Committee, <i>Environment Protection (Beverage Container Deposit and Recovery Scheme) Bill 2009</i> , September 2009	Inquiry Report, <i>Waste Management</i> , October 2006
Senate Economics Legislation Committee, <i>Corporations Amendment (Improving Accountability on Termination Payments) Bill 2009 [Provisions]</i> , September 2009	Draft Inquiry Report, <i>Executive Remuneration in Australia</i> , September 2009
Senate Economics Legislation Committee, <i>Trade Practices Amendment (Australian Consumer Law) Bill 2009 [Provisions]</i> , September 2009	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
House of Representatives Standing Committee on Education and Training, <i>Adolescent overload? Report of the inquiry into combining school and work: supporting successful youth transitions</i> , October 2009	Staff Working Paper, <i>Part Time Employment: the Australian Experience</i> , June 2008
Senate Education, Employment and Workplace Relations References Committee, <i>Provision of childcare</i> , November 2009	Draft Research Report, <i>Annual review of regulatory burdens on business: social and economic infrastructure services</i> , June 2009
Senate Select Committee on the National Broadband Network, <i>Third Report</i> , November 2009	Annual Report Series, <i>Annual Report 2008-09</i> , October 2009

Select Committee on Regional and Remote Indigenous Communities, *Third Report 2009*, November 2009

Senate Select Committee on the National Broadband Network, *Third Report*, November 2009

House of Representatives Standing Committee on Employment and Workplace Relations, *Making it Fair: Pay equity and associated issues related to increasing female participation in the workforce*, November 2009

Senate Legal and Constitutional Affairs References Committee, *Access to Justice*, December 2009

Senate Economics Legislation Committee, *Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009 [Provisions]*, February 2010

Senate Education, Employment and Workplace Relations Legislation Committee, *Occupational Health and Safety and Other Legislation Amendment Bill 2009 [Provisions]*, February 2010

Senate Legal and Constitutional Affairs Legislation Committee, *Native Title Amendment Bill (No.2) 2009 [Provisions]*, February 2010

Senate Economics Legislation Committee, *Trade Practices Amendment (Infrastructure Access) Bill 2009 [Provisions]*, March 2010

Senate Economics Legislation Committee, *Offshore Petroleum and Greenhouse Gas Storage Legislation Amendment (Miscellaneous Measures) Bill 2010 [Provisions]*, April 2010

Senate Finance and Public Administration References Committee, *Native Vegetation Laws, Greenhouse Gas Abatement and Climate Change Measures*, April 2010

Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2009*

Annual Report Series, *Annual Report 2008-09*, October 2009

Staff Working Paper, *Part Time Employment: the Australian Experience*, June 2008; Annual Report Series, *Annual Report 2006-07*, November 2007

Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2009*

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

Inquiry Report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, March 2004

Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2009*

Inquiry Report, *Review of the National Access Regime*, September 2001

Research Report, *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*, April 2009

Inquiry Report, *Impacts of Native Vegetation and Biodiversity Regulations*, April 2004

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(continued on next page)

**Table C.1 (continued)**

<i>Parliamentary Committee and report</i>	<i>Commission publication used</i>
House of Representatives Standing Committee on Economics, <i>Inquiry into raising the productivity growth rate in the Australian economy</i> , April 2010	Productivity Commission, <i>Submission</i> , September 2009
Senate Community Affairs Legislation Committee, <i>Health Practitioner Regulation (Consequential Amendments) Bill 2010 [Provisions]</i> , April 2010	Research Report, <i>Australia's Health Workforce</i> , December 2006
Senate Economics Legislation Committee, <i>Trade Practices Amendment (Australian Consumer Law) Bill (No. 2) 2010 [Provisions]</i> , May 2010	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
Senate Community Affairs Legislation Committee, <i>Exposure Draft and Paid Parental Leave Bill 2010 [Provisions]</i> , June 2010	Inquiry Report, <i>Paid parental leave: support for parents with newborn children</i> , February 2009
Senate Community Affairs Legislation Committee, <i>Food Standards Australia New Zealand Amendment Bill 2010 [Provisions]</i> , June 2010	Research Report, <i>Chemicals and Plastics Regulation</i> , July 2008
Senate Economics Legislation Committee, <i>Tax Laws Amendment (Research and Development) Bill 2010 [Provisions] and Income Tax Rates Amendment (Research and Development) Bill 2010 [Provisions]</i> , June 2010	Research Report, <i>Public Support for Science and Innovation</i> , March 2007

**Table C.2 Parliamentary Library use of Commission publications in 2009-10**

<i>Parliamentary Library output 2009-10</i>	<i>Commission publication used</i>
<i>Road Transport Reform (Dangerous Goods) Repeal Bill 2009, Bills Digest No 1, July 2009</i>	<i>Draft Research Report, Annual review of regulatory burdens on business: social and economic infrastructure services, June 2009</i>
<i>Medical practitioners: education and training in Australia, Background Note, July 2009</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>Corporations Amendment (Improving Accountability on Termination Payments) Bill 2009, Bills Digest No 6, August 2009</i>	<i>Inquiry Report, Executive Remuneration in Australia, December 2009</i>
<i>Therapeutic Goods Amendment (2009 Measures No. 2) Bill 2009, Bills Digest No 8, August 2009</i>	<i>Research Report, Chemicals and Plastics Regulation, July 2008</i>
<i>ACIS Administration Amendment Bill 2009, Bills Digest No 9, August 2009</i>	<i>Inquiry Report, Review of Automotive Assistance, August 2002</i>
<i>Health Legislation Amendment (Midwives and Nurse Practitioners) Bill 2009, Bills Digest No 11, August 2009</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>Trade Practices Amendment (Australian Consumer Law) Bill 2009, Bills Digest No 19, August 2009</i>	<i>Inquiry Report, Review of Australia's Consumer Policy Framework, May 2008</i>
<i>Corporations Legislation Amendment (Financial Services Modernisation) Bill 2009, Bills Digest No 27, September 2009</i>	<i>Inquiry Report, Review of Australia's Consumer Policy Framework, May 2008</i>
<i>National Consumer Credit Protection Bill 2009, Bills Digest No 30, September 2009</i>	<i>Inquiry Report, Review of Australia's Consumer Policy Framework, May 2008</i>
<i>Trade Practices Amendment (Infrastructure Access) Bill 2009, Bills Digest No 66, November 2009</i>	<i>Inquiry Report, Review of the National Access Regime, September 2001</i>
<i>Economic effects of payroll tax, Background Note, September 2009</i>	<i>Staff Research Paper, Directions for State Tax Reform, May 1998</i>
<i>Should we expand the use of pay-for-performance in health care?, Research Paper No 12, November 2009</i>	<i>Draft Inquiry Report, Executive Remuneration in Australia, September 2009</i>
<i>Tax Laws Amendment (2009 Budget Measures No. 2) Bill 2009, Bills Digest No 75, December 2009</i>	<i>Draft Inquiry Report, Executive Remuneration in Australia, September 2009</i>

(continued on next page)

Table C.2 (continued)

<i>Parliamentary Library output 2009-10</i>	<i>Commission publication used</i>
<i>Occupational Health and Safety and Other Legislation Amendment Bill 2009, Bills Digest No 78, January 2010</i>	<i>Inquiry Report, National Workers' Compensation and Occupational Health and Safety Frameworks, March 2004</i>
<i>Toward national workplace safety and workers' compensation systems: a chronology, Background Note, January 2010</i>	<i>Inquiry Report, National Workers' Compensation and Occupational Health and Safety Frameworks, March 2004</i>
<i>Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009, Bills Digest No 92, February 2010</i>	<i>Research Report, Modelling Economy-wide Effects of Future TCF Assistance, June 2008</i>
<i>Sport on television: to siphon or not to siphon?, Research Paper No 14, February 2010</i>	<i>Inquiry Report, Broadcasting, March 2000; Research Report, Annual review of regulatory burdens on business: social and economic infrastructure services, September 2009</i>
<i>Aviation white paper: an overview, Background Note, February 2010</i>	<i>Inquiry Report, International Air Services, September 1998</i>
<i>Protection of the Sea Legislation Amendment Bill 2010, Bills Digest No 100, February 2010</i>	<i>Staff Working Paper, The Stern Review: an assessment of its methodology, January 2008</i>
<i>Health Practitioner Regulation (Consequential Amendments) Bill 2010, Bills Digest No 132, March 2010</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>Offshore Petroleum and Greenhouse Gas Storage Legislation Amendment (Miscellaneous Measures) Bill 2010, Bills Digest No 126, March 2010</i>	<i>Research Report, Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector, April 2009</i>
<i>Emissions Control: your policy choices, Background Note, May 2010</i>	<i>Submission, What Role for Policies to Supplement an Emissions Trading Scheme?, Submission to the Garnaut Climate Change Review, May 2008</i>
<i>Paid parental leave, Background Note, May 2010</i>	<i>Inquiry Report, Paid parental leave: support for parents with newborn children, February 2009</i>
<i>Farm Household Support Amendment (Ancillary Benefits) Bill 2010, Bills Digest No 160, June 2010</i>	<i>Inquiry Report, Government Drought Support, February 2009</i>

*Tax Laws Amendment (Research and Development) Bill 2010*, Bills Digest No 165, June 2010

*Export Market Development Grants Amendment Bill 2010*, Bills Digest No 170, June 2010

*Food Standards Australia New Zealand Amendment Bill 2010*, Bills Digest No 167, June 2010

*Paid Parental Leave Bill 2010*, Bills Digest No 175, June 2010

*Toward national workplace safety and workers' compensation systems: a chronology*, Background Note, June 2010

*Trade Practices Amendment (Australian Consumer Law) Bill (No. 2) 2010*, Bills Digest No 187, June 2010

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

Annual Report Series, *Trade and Assistance Review 2007-08*, May 2009

Draft Research Report, *Chemicals and Plastics Regulation*, March 2008; Research Report, *Chemicals and Plastics Regulation*, July 2008

Draft Inquiry Report, *Paid parental leave: support for parents with newborn children*, September 2008; Inquiry Report, *Paid parental leave: support for parents with newborn children*, February 2009

Inquiry Report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, March 2004

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

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### *Estimates appearances*

The Commission is also invited to appear regularly before Senate Estimates to assist the work of Federal Parliament and facilitate scrutiny of its work. It was requested to attend Senate Estimates hearings on two occasions in 2009-10. Appearances by the Chairman and senior staff before the Senate Standing Committee on Economics occurred on 22 October 2009 and 3 June 2010. Hansard of the appearances is available on the Parliament of Australia website.

### **Other evidence**

In addition to the performance indicators for 2009-10 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 responding to the Commission's report on executive remuneration in April 2010, the Government stated that it:  
...commends the PC for its comprehensive report and the thorough and consultative approach used in the review process (Swan, Bowen and Sherry 2010).
- In September 2009, the Minister for Financial Services, Superannuation and Corporate Law and Minister for Human Services, Chris Bowen, described the Commission as:  
... the most respected economic think tank in the country (Bowen 2009).
- In March 2010, the Assistant Treasurer, Nick Sherry, said that:  
... it's important to have rigorous economic analysis and the Productivity Commission is an important part of that debate in Australia (Sherry 2010).
- In June 2010 the Government announced that a Commission review of the economic regulation of airports would be brought forward to the current year (Albanese 2010).
- During the year COAG requested that the Commission undertake several new studies to assist it with its work. These included a study of the impacts and benefits of the COAG reform agenda, and a series of studies on the education and training workforce. In announcing the latter series of studies, the Government stated that these would:  
...provide valuable input to the work of the Council of Australian Governments (COAG) to strengthen Australia's education and training workforces (Gillard and Sherry 2010).



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- Additional funding was announced for the Commission in the 2010-11 Budget for it to undertake industry reviews associated with the Government's Renewable Energy Target. More broadly, the Budget also stated that:

It is anticipated the Commission's work in 2010-11 and the forward years will be integral to the national reform agenda.

- In February 2010 the OECD referred to the Commission as 'a respected source of advice on the potential areas where reform will deliver economic benefits' and discussed its 'important role in the achievement of the objectives of COAG's reform agenda' (OECD 2010b, p. 139).

- In announcing changes to administrative arrangements for excise equivalent goods in November 2009, the Australian Government stated that:

These new arrangements announced today reflect recommendations made by the Productivity Commission in its *Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades* of September 2008 (Sherry, Tanner and O'Connor 2009).

- The Federal Opposition proposed a number of tasks for the Commission during the year, including that it:

- be reshaped as the Productivity and Sustainability Commission and inquire into and recommend future population policies (Billson 2010)
- conduct an economic analysis of all proposed major defence acquisitions (Johnston 2010)
- analyse a number of aspects of the Government's Carbon Pollution Reduction Scheme (CPRS), including the modelling underpinning the scheme and the current state of progress of other countries in implementing emissions and abatement measures (Abetz 2010).

- The Australian Greens also proposed that the Commission be asked to undertake several strands of new work during the year, including:

- that it be required to provide regular reviews of proposed compensation to emissions intensive trade exposed industries (Milne 2009)
- that it inquire into the payment for childcare services (Hanson-Young 2010).

- In November 2009 the Standing Committee of Attorneys-General agreed that the Commonwealth should request the Commission to undertake a review of the measures and indicators of efficiency and effectiveness for the civil justice system in Australia (SCAG 2009). This followed an earlier recommendation in September 2009 by the Access to Justice Taskforce of the Commonwealth Attorney-General's Department that the Commission undertake such a review.

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- On 25 February 2010 Senator Steve Fielding called for the Commission to be invited to provide a detailed submission to the Economics Legislation Committee setting out viable alternative schemes to the Government's CPRS and the costs and benefits under those schemes of achieving emissions reductions targets.
  - The final report of the Henry taxation review, released in May 2010, recommended a range of new work for the Commission, including a review of tax concessions across all levels of government; a study of the manner in which public services are delivered; and an annual review of CPRS-related assistance (Henry 2010).
  - In April 2010 the Grattan Institute called for a permanent group to be established within the Commission to monitor the effect of a carbon price on the competitiveness of industry (Daley and Edis 2010).
  - In July 2010 the final report of the (Cooper) Review of the Superannuation System proposed a number of tasks for the Commission, including that it be asked to review the processes by which default superannuation funds are nominated in awards.
  - In December 2009 a Federal Audit of Police Capabilities conducted for the Attorney-General's Department (Beale 2009) recommended that the Commission be asked to conduct a study on the national policing workforce.
  - Parliamentary Committees continued to draw on Commission reports to inform their work and to recommend new work for the Commission. For example:
    - In October 2009, the House of Representatives Standing Committee on Climate Change, Water, Environment and the Arts recommended that the Commission be asked to undertake an inquiry into the projected impacts on coastal properties of climate change and related insurance matters.
    - In May 2010, the Senate Economics References Committee called for the Commission to be asked to undertake a further review to evaluate the effectiveness of national competition policy and to publish its report by 30 April 2011.
    - In May 2010, the House of Representatives Standing Committee on Economics recommended that the Commission undertake modelling on the effect of human capital investment on Australian productivity growth.
    - In June 2010, the House of Representatives Standing Committee on Communications called for the Commission to conduct an in-depth investigation and analysis of the economic and social costs of the lack of

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- security in the IT hardware and software products market, and its impact on the efficient functioning of the Australian economy.
- In June 2010 the Senate Community Affairs References Committee recommended that the Government commission a detailed independent assessment of the cost of suicide and attempted suicide, to be conducted by the Commission.
  - The Australian Shareholders Association welcomed the release of the Commission’s report on executive remuneration in April 2010, stating that the Commission had consulted widely with stakeholders and recommended a well measured, considered package of reforms (ASA 2010).
  - Throughout the year various peak bodies also continued to call for the Commission to be requested to undertake a diverse range of work. For example:
    - In March 2010 the Australian Chamber of Commerce and Industry called for the Commission to conduct an inquiry into the level of competition in the provision of SME finance (ACCI 2010).
    - The Business Council of Australia called in May 2010 for a Commission review of the proposed resource rent tax (Murphy 2010). In October 2009 it called for the Commission to be asked to conduct regular audits of infrastructure and for COAG to request that the Commission consider reforms to urban water markets (BCA 2009).
    - In April 2010 the National Independent Retailers Association called for a Commission review of the banking sector ‘with a view to freeing up competition and make choice easier’ (NIRA 2010).
    - In June 2010 the National Irrigators Council requested that the Commission be asked to undertake a review of the impacts of the draft Murray-Darling Basin plan prior to final sign-off.
  - In April 2010, Foxtel CEO Kim Williams called for a review of media regulation and stated:

... the review must be conducted by the right body and this, in my view, is the Productivity Commission. It is the most disciplined, authoritative and independent economic policy agency in the country (Williams 2010).
  - In April 2010 the Chairman of the Australian Nuclear Science and Technology Organisation (ANSTO), Dr Ziggy Switkowski, called for the Commission to be asked to undertake a study of the feasibility of increased reliance on nuclear energy (AAP 2010).

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- In March 2010 the Committee for Sydney called for the Commission to conduct a review into the role of Australia's capital cities in the 21<sup>st</sup> century.
  - In March 2010, Suicide Prevention Australia called for the Commission to be asked to conduct an audit to examine the parity of access between urban and remote-area services, including health, education, housing, transport and social services (Fossey 2010).
  - In October 2009 the Urban Development Institute of Australia recommended that the Commission be charged with undertaking an inquiry into financing local infrastructure and specifically examine the proliferation and impact of development levies (Urban Development Institute of Australia 2009).
  - A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including energy efficiency; the costs of inconsistent public holiday dates across State and Territory jurisdictions; current retail structures; barriers to investment in jet fuel supply infrastructure; bilateral trade agreements; the provision of education services to overseas students; aspects of electronic payment systems; the economic case for the structural separation of Telstra; the impact on working mothers and families of school holiday and after-school care; the potential savings arising from using technologies to maintain seniors in their own homes; the viability of wind power; regional provision of services and infrastructure; and the cost and prevalence of communication and swallowing disorders in Australia.
  - 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:
    - In March 2010 the New Zealand Government announced the establishment of a New Zealand Productivity Commission, stating that:

The (New Zealand) Commission's roles and functions are modelled closely on the Australian Productivity Commission, which has been operating for more than 10 years... The independence of the Australian Productivity Commission has ensured that important public policy issues have been tackled in a non-political way (English and Hide 2010).
    - In discussing regulatory reform in Australia in February 2010, the OECD stated that 'The PC has been an important part of the institutional architecture for regulatory reform in Australia and it provides a model with many features that could usefully be emulated outside Australia in other OECD countries' (OECD 2010b, pp. 99-100).

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### *Citations in journals and elsewhere*

In addition to the parliamentary, media and other coverage reported elsewhere 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 2009-10 in a range of journals and other publications. These covered 84 different reports, papers, speeches and work in progress. The reports receiving the most number of citations were the annual *Report on Government Services* from various years, the *Overcoming Indigenous Disadvantage* reports, studies on the policy implications of an ageing population (2005b) and the health workforce (2005c), and the Commission's inquiry on Australia's consumer policy framework (2008h). The Commission's work was cited in 105 different journals and publications.

### *COAG review of the Report on Government Services*

COAG agreed in 2009 to a review of the *Report on Government Services* (ROGS), to be undertaken by a combined Senior Officials and Heads of Treasuries Working Group. COAG endorsed the review's recommendations at its 7 December 2009 meeting. These recommendations included:

- ROGS should continue to be the key tool to measure and report on the productive efficiency and cost effectiveness of government services.
- The Chair of the Productivity Commission should remain Chair of the Steering Committee and the Productivity Commission should continue to provide secretariat support to the SCRGSP.
- New Terms of Reference should be prepared that acknowledge the ROGS is part of and supports the new federal financial relations framework, and that enhance the authority and strategic nature of the Steering Committee.

COAG endorsed new terms of reference and a charter of operations in April 2010.

## **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

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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.

All government-commissioned inquiries in 2009-10 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 2009-10**

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

During 2009-10 the Commission:

- completed three public inquiries begun in 2008-09 — on Australia's gambling industries, executive remuneration and anti-dumping
- commenced four other new public inquiries, which are due for completion in 2010-11, on wheat marketing arrangements, rural research and development corporations, aged care and disability care and support.

Research studies commissioned by the Government were a significant component of the Commission's workload again in 2009-10 (figure 2.1). During the year the Commission:

- finalised five government-commissioned research studies begun the previous year — a study of restrictions on the parallel importation of books, the third stages of the reviews of regulatory burdens on business and business regulation benchmarking, and studies of the contribution of the not-for-profit sector and the performance of public and private hospital systems
- commenced and completed in the same year a study of mechanisms to purchase water entitlements
- commenced five other new studies — the fourth stages of the review of regulatory burdens on business and business regulation benchmarking, and

studies on bilateral and regional trade agreements, the education and training workforce, and the impacts and benefits of COAG reforms.

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

	2008-09					2009-10					2010-11														
	Month	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>																									
Paid maternity, paternity and parental leave																									
Government drought support																									
Gambling																									
Executive remuneration																									
Anti-dumping																									
Wheat																									
Caring for older Australians																									
Disability care and support																									
Rural research and development corporations																									
<b>Commissioned research studies:</b>																									
Restriction on the parallel importation of books																									
Review of regulatory burdens on business – Stage 3																									
Business regulation benchmarking – Stage 3																									
Contribution to the not for profit Sector																									
Performance of public & private hospital systems																									
Mechanisms to purchase water entitlements																									
Bilateral and regional trade agreements																									
Education and training workforce – Stage 1																									
Review of regulatory burdens on business – Stage 4																									
Business regulation benchmarking – Stage 4																									
Impacts and benefits of COAG reforms																									

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

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

**Table C.4 Public inquiry and other commissioned project activity, 2005-06 to 2009-10**

<i>Indicators</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
<b>Public inquiries</b>					
Inquiry references received	4	2	3	3	4
Issues papers released	4	2	1	3	4
Public hearings (sitting days) <sup>a</sup>	26	28	28	17	28
Organisations/people visited	151	134	124	205	261
Submissions received	654	422	720	749	609
Draft reports <sup>b</sup>	2	3	2	2	4
Inquiry reports completed	2	4	3	2	3
Inquiries on hand (at 30 June)	4	2	2	3	4
<b>Research studies</b>					
References received	4	3	7	5	5
Submissions received	608	485 <sup>c</sup>	262	972	483
Draft reports <sup>b</sup>	4	3	4	6	11
Research reports completed	4	4	4	7 <sup>d</sup>	7 <sup>d</sup>
Studies on hand (at 30 June)	3	2	5	5	5
<b>Total references</b>					
Total references received	8	5	10	8	9
Total references completed	6	8	7	8	9
Total references on hand (at 30 June)	7	4	7	8	9

<sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> Includes all types of draft reports. <sup>c</sup> Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation. <sup>d</sup> Total includes two final reports completed as part of the study on business regulation benchmarking.

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 nine inquiries and government-commissioned research studies completed in 2009-10 are shown in table C.5.



**Table C.5 Cost of public inquiries and other commissioned projects completed in 2009-10<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Gambling	2 110
Executive remuneration	1 334
Anti-dumping	954
Restrictions on the parallel importation of books	985
Review of regulatory burdens on business – Stage 3	1 199
Business regulation benchmarking – Stage 3 <sup>b</sup>	1 886
Contribution of the not-for-profit sector	1 575
Performance of public and private hospital systems	813
Mechanisms to purchase water entitlements	1 295

<sup>a</sup> Includes estimated overheads. <sup>b</sup> Includes two reports.

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 2005-06 to 2009-10 are shown in table C.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 C.6 Direct administrative expenditure on public inquiries and other government-commissioned projects<sup>a</sup>, 2005-06 to 2009-10**

<i>Expenditure item</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	382	478	394	546	526
Printing	151	132	108	133	212
Consultants	103	40	402	82	27
Other <sup>b</sup>	311	291	208	251	526
<b>Total</b>	<b>946</b>	<b>942</b>	<b>1 112</b>	<b>1 012</b>	<b>1 291</b>

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

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## Consultative processes

The practice of consulting widely with government departments and agencies, professional and industry organisations, academics and the broader community during inquiries and government-commissioned research projects continued in 2009-10.

In the course of its inquiry work over the year, the Commission held 28 public hearings, visited more than 260 individuals and organisations and received more than 600 submissions. The Commission encourages broad public participation in its inquiry work, including by those in rural and regional areas. For example:

- In conducting its inquiry into gambling, the Commission sent circulars to a wide range of individuals and organisations thought to have an interest in the inquiry. During the early stages of the inquiry, the Commission also consulted with a range of interested parties to get an idea of the key issues and where the Commission's report could add most value. A number of roundtables were also held in late 2008 and early 2009. A Draft Report was released for public comment in October 2009. Public hearings to discuss the Draft were also held in Melbourne, Sydney, Adelaide, Brisbane and Canberra in late November and early December 2009. In conducting its inquiry, the Commission benefited greatly from the participation of a wide range of individuals and organisations.
- In the course of undertaking its inquiry into wheat export marketing arrangements, the Commission undertook extensive consultations in rural and regional areas. Further details on these consultations are provided in box 2.2.

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 299 000 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2010.

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## Quality indicators

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

The roundtables and workshops 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 inquiry into executive remuneration, the Commission hosted four roundtables across the course of the inquiry which were attended by representatives of over 40 organisations and companies. The roundtables allowed industry participants to discuss their views on a wide range of issues and to provide further information to the Commission to assist its inquiry.
- In its study on the regulatory burdens on business in the social and economic infrastructure services sector, the Commission held two roundtables in late June 2009 following the release of its draft report. These were attended by a range of stakeholders in the aged care and broadcasting sectors, including industry and regulator representatives, who were able to debate and exchange information to clarify the veracity of concerns. The roundtables also assisted the Commission in identifying several additional areas of concern that were subsequently incorporated into its final report.

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. Details of the Government's responses to Commission reports are provided in appendix D.

## Timeliness

Of the ten inquiries and commissioned research studies finalised in 2009-10, four were completed on or ahead of schedule.

Extensions were required for six inquiries and studies:

- The reporting period for the gambling inquiry was extended by approximately 12 weeks from 24 November 2009 to 26 February 2010 following delays in

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receiving a number of submissions from key stakeholders and extensive consultation requirements.

- The original reporting period for the study of restrictions on the parallel importation of books was extended by approximately six weeks from the original date of 13 May 2009 to 30 June 2009 in view of the large number of submissions received following the release of the discussion draft.
- An extension of four weeks was approved for the study into the contribution of the not-for-profit sector, from 31 December 2009 to 31 January 2010, due to delays in the publication of other key reports that the study drew upon.
- The reporting period for the study into mechanisms to purchase water entitlements in the Murray Darling Basin was extended by eight weeks from 24 January 2010 to 24 March 2010 due to extensive consultation requirements.
- Delays in obtaining critical information required for the Commission's benchmarking study of occupational health and safety regulatory regimes led to an extension of the reporting period by approximately twelve weeks from the end of December 2009 to the end of March 2010.
- The reporting period for the study on the performance of public and private hospital systems was extended by approximately three weeks, from 15 November 2009 to 4 December 2009, due to delays in obtaining data needed to undertake the study.

## **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 announced the following decisions on Commission reports.

- The Government accepted a large majority of the Commission's recommendations on executive remuneration (Swan, Bowen and Sherry 2010). Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six subject to further strengthening.

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- In response to the Commission's *Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services* the Government accepted or provided in-principle acceptance to a majority of the recommendations in the report. Of the 42 Commission recommendations, the Government accepted or accepted in principle 26 recommendations, and noted a further 12 recommendations. The Government accepted recommendations across a range of areas, including aged care; child care; information media and telecommunications; electricity, gas, water and waste services; transport; and education and training.
  - The Australian Government released an initial response to the Commission's gambling report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. For example, it stated that it:
 

... supports the use of pre-commitment technology to tackle problem gambling and is committed to working with State and Territory Governments, and industry, in implementing this technology. (Macklin, Sherry and Conroy 2010)

The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.
  - The Government also announced in November 2009 that it will establish a National Offshore Petroleum, Minerals and Greenhouse Gas Storage Regulator, in line with recommendations made in the Commission's 2009 review of regulation in the upstream petroleum sector (PC 2009a).
  - In responding to the Commission's report on restrictions on the parallel importation of books in November 2009, the Government announced that it did not intend to change the Australian regulatory regime for books (Emerson 2009a).
  - In June 2010, the Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011 (Burke 2010a). The pilot reform measures draw partly on a number of recommendations made in the Commission's 2009 inquiry report on government drought support, in particular regarding interest rate subsidies and farm exit support.

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

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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.

### *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:

- In July 2009, COAG signed an Intergovernmental Agreement, which included agreement to a national consumer protection law, in line with recommendations made by the Commission in its review of Australia's consumer policy framework. (COAG 2009b)
- In December 2009 the Ministerial Council on Consumer Affairs agreed to specific reforms on product safety that implemented recommendations made by the Commission in its 2006 review of the Australian consumer product safety system. (Emerson 2009b)
- In April 2010, COAG agreed to the development of a nationally consistent approach to fundraising regulation, in line with recommendations made in the Commission's study of the economic contribution of the not-for-profit sector. (COAG 2010a)

### *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:

- In discussing the Commission's report on upstream petroleum regulation in August 2009, the Minister for Resources and Energy, Martin Ferguson, said that:  
The Commonwealth is minded to support all the recommendations of the Productivity Commission report with a view to reducing regulatory approval timeframes and creating consistency in administration nationally. (Ferguson 2009)
- In June 2010 the Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, discussed paid parental leave and stated:  
I'd like to thank the excellent work done by the Productivity Commission in their inquiry. The Government did use their work to base this Paid Parental Leave scheme on. (Macklin 2010a)
- Commission reports continued to be used to inform the work of COAG's Business Regulation and Competition Working Group during the year, including

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reports on the health workforce, retail tenancy, chemicals and plastics regulation, upstream petroleum regulation and consumer policy (COAG and BRCWG 2009).

- In March 2010 the Government announced its National Health Reform Plan (Roxon 2010). The accompanying report drew on findings in the Commission's study of public and private hospital systems (PC 2009f).
- On 13 May 2010 the Australian Government introduced the *Food Standards Australia New Zealand Amendment Bill 2010*. The Bill implemented recommendations made by the Commission in its 2008 review of chemicals and plastics regulation (PC 2008l).
- In March 2010 the Prime Minister and Parliamentary Secretary for Social Inclusion and the Voluntary Sector drew on Commission work on the economic contribution of the not-for-profit sector when announcing the establishment of a national compact with the third sector (Rudd and Stephens 2010).
- The 2010 Intergenerational Report (Treasury 2010c) made extensive use of Commission inquiry, study and research publications, including the reports on paid parental leave and the economic implications of an ageing population.
- A consultation paper on statutory conduct and franchising, released by the Treasury and Department of Innovation, Industry, Science and Research (2010a), drew on Commission reports on consumer policy and retail tenancy (PC 2008h, 2008j).
- In December 2009, COAG released a regulation impact statement for early childhood education and care quality reforms that drew on analysis in the Commission's 2008 business regulation benchmarking report (PC 2008m).
- In announcing the terms of reference for a study of gambling impacts in Tasmania, the Minister for Human Services (Tasmania), Lin Thorp MLC, stated that where appropriate, the Commission's 2010 report into gambling would be used as a key information source (Thorp 2010).
- Draft regulations for revised substances scheduling, released by the Therapeutic Goods Administration in January 2010 (TGA 2010), drew on recommendations in the Commission's report on chemicals and plastics regulation (PC 2008l).
- On 29 March the Australian Government's report *Ahead of the game: Blueprint for reform of Australian government administration* drew on several Commission reports, including commissioned studies on the economic contribution of the not-for-profit sector and the regulatory burdens on business.

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- In December 2009 the National Childcare Accreditation Council (NCAC 2009) announced changes to its childcare quality assurance processes that drew on the Commission's 2009 report on regulatory burdens in the sector (PC 2009b).
  - In May 2010 the Environment Protection and Heritage Council released its National Waste Report 2010 (EPHC 2010). The report made extensive use of analysis in the Commission's 2006 report on waste management (PC 2006e).
  - In October 2009 a report by the Essential Services Commission (Victoria) on local government performance monitoring drew extensively on the Commission's 2008 report on local government revenue raising. The ESC also drew on past reports on the national access regime, road and rail infrastructure pricing and national competition policy, in its review of the Victorian Rail Access Regime (Essential Services Commission (Victoria) 2010).
  - In October 2009 a report by the Victoria University (2009) on reforms to the Pharmaceutical Benefits Scheme drew on past Commission reports on medical technology and the economic implications of an ageing population.
  - In March 2010 the Australian Subscription Television and Radio Association (ASTRA) drew on Commission findings to argue for change to broadcasting regulation.
  - The latest version of the Australian Competition and Consumer Commission's annual report on airport monitoring (ACCC 2010), released in March 2010, made extensive use of the Commission's 2002 and 2006 inquiry reports on the price regulation of airport services.
  - In April 2010 the National Housing Supply Council released a report on housing supply (NHSC 2010) that drew on the Commission's 2004 inquiry report on first home ownership (PC 2004d).
  - A report on interstate freight released by the Bureau of Infrastructure, Transport and Regional Economics in April 2010 (BITRE 2010) drew on analysis in the Commission's 2006 report on road and rail infrastructure pricing (PC 2006h).
  - 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 93 separate occasions by Members and Senators in the Federal Parliament in 2009-10. Commission inquiries and reports which featured most prominently in mentions were those on gambling, executive remuneration and disability care and support.



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- State and Territory members of parliament referred to current Commission inquiries and commissioned research studies on 152 occasions in 2009-10. Around 40 per cent of mentions were to the *Report on Government Services*, with the Commission’s report on gambling also featuring prominently.
  - The final report of the Australian Longitudinal Study on Women’s Health, released in January 2010 (Loxton and Lucke 2009), drew on Commission inquiry and research publications, including the report on paid parental leave.
  - A major report on bioenergy sustainability released by the Rural Industries Research and Development Corporation in November 2009 (RIRDC 2009b) drew on past Commission work on energy efficiency (PC 2005d).
  - In April 2010 the Australian Government’s Corporations and Markets Advisory Committee (CAMAC 2010) released guidance for company directors that drew extensively on the Commission’s executive remuneration inquiry report.
  - The Senate Economics Legislation Committee (2010) report on consumer law amendments to the *Trade Practices Act 1974* stated that:

The Treasury indicated that the initial catalyst for reform was... the recommendations made by the Productivity Commission in its 2008 review of Australia’s consumer policy framework.
  - In December 2009 the COAG Reform Council released a report on progress towards a seamless national economy (CRC 2009). The report drew extensively on Commission inquiry and study outputs, including the national competition policy inquiry (PC 2005a) and the study of the potential benefits of the national reform agenda (PC 2006b).
  - Continued use of Commission reports by private sector consultants in their work for government and industry clients — for example, the Commission’s 2005 study on the policy implications of an ageing population (Access Economics 2010a); and the 2008 report on chemicals and plastics regulation (Access Economics 2010b).

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

10	Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. 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 C.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)	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.
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 C.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
32 <i>Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping (February 2005)</i>	<i>The Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.</i>
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.

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| 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 Pigmeat (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 Pigmeat (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 C.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
45 Review of Australia's Consumer Policy Framework (May 2008)	<p>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).</p> <p>Legislation to fully implement the new consumer law (including new provisions based on best practice in existing State and Territory laws); and to implement the new national legislative and regulatory framework for product safety, was introduced in 2010.</p>
46 <i>Government Drought Support (May 2009)</i>	<p><i>On 28 June 2010, the Australian Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011. The pilot reform measures draw partly on a number of recommendations made in the Commission's report, in particular regarding interest rate subsidies and farm exit support.</i></p>
47 Paid Parental Leave (February 2009)	<p>As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme being introduced is closely based on that proposed in the Commission's final inquiry report. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.</p>



- 49 *Executive Remuneration (December 2009)* *On 16 April 2010 the Government released a detailed response to the Commission's report. Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six of the in-principle acceptances provided by the Government subject to additional further strengthening. The Government did not support one recommendation on the removal of cessation of employment as a trigger for the taxation of deferred employee share schemes. It stated that, in its view, removal would increase the concessionality of schemes, providing a disproportionately large benefit to higher-income employees.*
- 50 *Gambling (February 2010)* *The Australian Government released an initial response to the Commission's report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.*
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<sup>a</sup> Additions or significant changes to the table published in the 2008-09 Annual Report are indicated in italics.

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### *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 2010 there were more than 205 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2009-10. The projects of most interest were the inquiries on gambling (38 750 requests), disability support (26 640 requests) and executive remuneration (19 000 requests), and the research study on the contribution of the not for profit sector (27 800 requests). Other heavily accessed web pages were for the 2009 and 2010 Reports on Government Services (and 23 300 and 23 400 requests, respectively) and the 2009 *Overcoming Indigenous Disadvantage* report (50 900 requests). Speeches by the Commission's Chairman attracted more than 41 000 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 and the 2005 study of the economic implications of an ageing Australia were each requested over 10 000 times.
- Inquiry and commissioned research reports typically receive wide media coverage. In 2009-10 there were 76 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on executive remuneration, paid parental leave and government drought policy, and the studies on the restrictions on the parallel importation of books, public and private hospitals and regulation benchmarking.
- Inquiries current in 2009-10 received over 5 200 mentions in the print and broadcast media during the year — over 68 per cent of total print and broadcast media coverage. Coverage of the Commission's inquiry into gambling and executive remuneration accounted for over a third of total mentions. New work suggestions accounted for over 6 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 104 invitations the Commission accepted in 2009-10 to present papers on inquiries and commissioned studies to business, community and other groups — in particular, on the Commission's executive remuneration inquiry, and the studies on the contribution of the not-for-profit sector and the performance of public and private hospitals (table E.1).

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## Performance reporting and other services to government bodies

At the request of the Government, the Commission undertakes several major activities in this group. It:

- provides secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of the annual *Report on Government Services*; the two-yearly *Overcoming Indigenous Disadvantage* report; and the collation of performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council and the broader national performance reporting system
- provides secretariat, research and report services to the Indigenous Expenditure Steering Committee in respect of the annual report on expenditure on services to Indigenous Australians.

### Activities in 2009-10

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

- National Framework for Reporting Expenditure on Services to Indigenous Australians: Stocktake Report (July 2009)
- the Indigenous Expenditure Report *2010 Expenditure Data Manual* (December 2009)
- *Report on Government Services 2010*, 2 volumes (and on CD with supporting tables, January 2010)
- Report on Government Services 2010: Indigenous Compendium (April 2010)
- National Agreement performance information 2008-09: National Healthcare Agreement (December 2009)
- National Agreement performance information 2008-09: National Affordable Housing Agreement (December 2009)
- National Agreement performance information 2008-09: National Disability Agreement (December 2009)
- National Agreement performance information 2008-09: National Indigenous Reform Agreement (December 2009)
- National Agreement performance information 2009: National Agreement for Skills and Workforce Development (June 2010)

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- National Agreement performance information 2009: National Education Agreement (June 2010)
  - Data gaps in education and training National Agreement reports (provided to Heads of Treasuries Committee on Federal Financial Relations on 17 September 2009)
  - Data gaps in National Agreement reports: 2008 and 2008-09 (provided to Heads of Treasuries Committee on Federal Financial Relations on 23 April 2010)
  - *Overcoming Indigenous Disadvantage: Key Indicators 2009* (July 2009)
  - *Overcoming Indigenous Disadvantage: Key Indicators 2009 Overview* (July 2009).

### *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.

COAG endorsed the recommendations of a combined Senior Officials and Heads of Treasuries Working Group review of the Report on Government Services (ROGS) at its 7 December 2009 meeting. In April 2010, COAG endorsed new terms of reference for the Review that acknowledge the ROGS is part of and supports the new federal financial relations framework, and that enhance the authority and strategic nature of the Steering Committee.

As part of its Reconciliation Agenda, COAG requested in 2002 that the Review produce a regular report against key indicators of Indigenous disadvantage (the Overcoming Indigenous Disadvantage (OID) report). In March 2009, the Prime Minister provided updated terms of reference for the report, requesting the Steering Committee to align the OID framework with COAG's six high level targets for Closing the Gap in Indigenous outcomes.

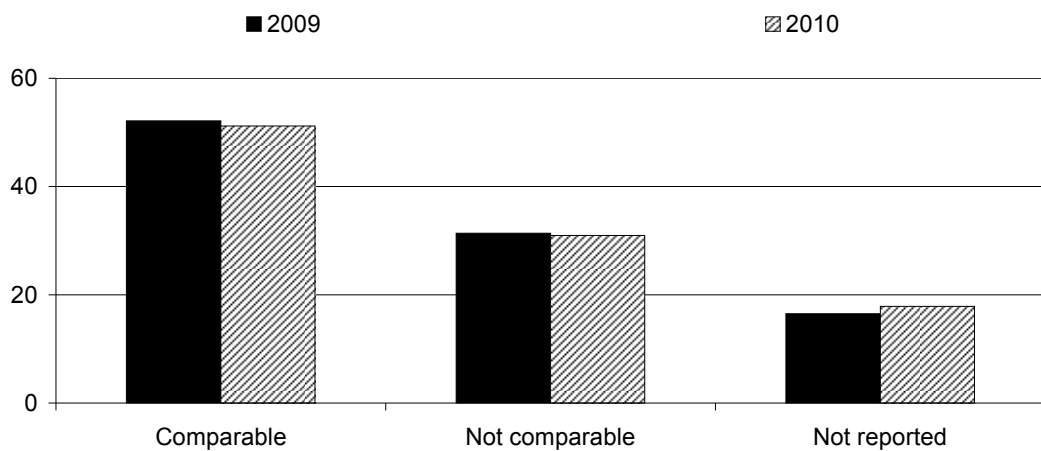
In November 2008, COAG endorsed a new Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, the Steering Committee has 'overall responsibility for collating the necessary performance data' required for the COAG Reform Council to undertake its assessment, analytical and reporting responsibilities. In addition, the Chair of the Heads of Treasuries Committee on Federal Financial Relations (HoTs Committee) has requested the Steering Committee to bring together information on data gaps in the performance reporting framework, and report back to the HoTs Committee on a six-monthly basis.

The fifteenth Report on Government Services was released in January 2010. The Report emphasises reporting of outcomes, consistent with the demand by governments for outcome-oriented performance information, and includes a focus on the equity, effectiveness and efficiency of government service provision.

Reporting is an iterative process. Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Since the first Report was published in 1995, there have been significant advances in both the scope of reporting and the quality and comprehensiveness of data. Indicator comparability changed slightly between the 2009 and 2010 Reports, with 51 per cent of indicators fully comparable in 2010 (compared to 52 per cent in 2009). The proportion of indicators reported on, but not fully comparable, remained the same at 31 per cent. The proportion of indicators with no reporting against them increased to 18 per cent (figure C.2).

**Figure C.2 Comparability of indicators**

Per cent



Particular improvements in the 2010 Report included:

- Children’s services — reporting on the age of children enrolled in preschool; reporting new data from the Australian Bureau of Statistics (ABS) *Childhood Education and Care Survey 2008*; and reporting on the level of qualifications of staff employed by Australian Government approved child care services
- School education — revised objectives for school education agreed by Australian, State and Territory governments’ education ministers (the *Melbourne Declaration on Educational Goals for Young Australians*, released in December 2008) replacing the *Adelaide Declaration* of 1999, to inform the performance

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indicator framework; alignment of this Report with National Education Agreement and National Indigenous Reform Agreement indicators; inclusion of data for the access and equity indicator ‘VET in Schools participation’ and the outcome indicator ‘VET in Schools attainment’, for 2006 and 2007; reporting the outcomes of 2008 NAPLAN testing against national minimum standards for the outcome indicators ‘reading performance’, ‘writing performance’ and ‘numeracy performance’; and reporting the outcomes of the 2007 National Years 6 and 10 Civics and Citizenship Assessment, for the outcome indicator ‘civics and citizenship performance’

- VET — expanded reporting of VET participation in general and VET participation in certificate III level and above, to include reporting by Indigenous status; new reporting of VET participation in diploma level qualifications and above, by target age groups and Indigenous status; and expanded reporting of qualifications completed, to include completions by all students at certificate III level qualifications and above, and at diploma level qualifications and above, by target age groups and Indigenous status
- Corrective services — relabelling of some financial descriptors and indicators for greater consistency with standard accounting terminology; and changes to the presentation of death and escape rates to better reflect small movements between years for jurisdictions with relatively small prisoner populations
- Emergency management — updating the road rescue events section, including revised ‘fire deaths’ data and including publication of a ten-year time series in the attachment tables; and expansion of time series data for ‘ambulance staff attrition’ and ‘ambulance urban centre response times’ indicators
- Health preface — including health risk factors data, such as smoker status, alcohol risk level, body mass index, diet and exercise
- Public hospitals — improving the definition of one of the reported sentinel events with resulting improvements to data comparability
- Primary and community health — revising objectives to better reflect current understanding of primary and community health; and combining three previously separate indicators into a single indicator ‘hospitalisations for selected vaccine preventable, acute and chronic conditions’, consistent with other current national reporting conventions
- Health management — reporting breast cancer detection rate data as annual averages for the first time; replacing the ‘average cost of ambulatory care’ indicator with measures from the agreed set of *National Mental Health Key Performance Indicators*; and reporting data from the *2007 National Survey of Mental Health and Wellbeing* under the indicator ‘prevalence of mental illness

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- Aged care — including data on access to aged care residential services for veterans, within the indicator ‘use by different groups’; inclusion of additional data for Extended Aged Care at Home Dementia (EACH-D) services; replacing the measure ‘average residents per room’ with a more comprehensive measure ‘percentage of compliant services’ for the indicator ‘compliance with service standards for residential care’; redefining HACC services received per 1000 people to only include people aged 70 years and over plus Indigenous people aged 50 to 69; and revisions to supporting attachment tables to report more comprehensive data
  - Services for people with disability — further refinement of the potential populations used to derive the ‘Service use by special needs groups’ measures; redevelopment of the quality assurance processes section to include information on the frameworks that govern service quality in each jurisdiction; and, the inclusion of additional descriptive information on the Younger People in Residential Aged Care (YPIRAC) program
  - Protection and support services — including data for additional jurisdictions for the ‘safety in out-of-home care’ effectiveness indicator, the two child protection ‘response time’ effectiveness indicators and the efficiency indicator ‘out-of-home care expenditure per placement night’; reporting data for six juvenile justice performance indicators and adding performance indicator boxes for a further seven juvenile justice indicators
  - Housing — reporting data for the access indicator ‘special needs income units aged 24 years or under, or 75 years or over’ in the Commonwealth Rent Assistance (CRA) service area; and reporting data for the affordability indicator ‘proportions of income units spending more than 30 per cent and 50 per cent of their income on rent with and without CRA for income units aged 24 years or under and aged 75 years or over receiving CRA’.

Table C.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2010 Report.

**Table C.8 Comparability of indicators, 2010 Report on Government Services**

<i>Service area indicator framework (year first reported)</i>	<i>Indicators reported on a comparable basis</i>			<i>Change in all indicators (no.)</i>	
	<i>no.</i>	<i>% of all reported</i>	<i>Change since last year no.</i>	<i>Since last year</i>	<i>Between first reported–2010</i>
<i>Early childhood, education and training</i>					
Children's services (1997)	14	66.7	+1	–	+14
School education (1995)	11	64.7	+1	+1	+10
Vocational education and training (1995)	11	78.6	–	–	+4
<i>Justice</i>					
Police services (1995)	16	76.2	–	–	+6
Court administration (1995)	3	50.0	–	–	+3
Corrective services (1995)	10	90.9	–	–	-3
<i>Emergency management</i>					
Fire events (1998)	2	20.0	–	–	+10
Ambulance events (1998)	1	11.1	–	–	+10
Road rescue events (2004)	–	–	–	–	+2
<i>Health</i>					
Public hospitals (1995)	6	40.0	–	–	+1
Maternity services (2001)	3	30.0	–	–	+5
Primary and community health (1999)	23	100.0	-2	-2	+18
Breast cancer detection/management (1998)	7	63.6	–	–	+11
Mental health management (1999)	5	45.5	+1	+1	+6
<i>Community services</i>					
Aged care services (1997)	14	87.5	+1	+1	+8
Services for people with a disability (1997)	7	53.8	–	–	+2
Child protection and out-of-home care (1995)	4	22.2	–	+1	+6
Juvenile justice (2009)	2	33.3	..	+6	+6
Supported Accommodation and Assistance Program (1995)	12	75.0	–	–	+12
<i>Housing</i>					
Public housing (1995)	11	100.0	–	–	-2
State owned and managed Indigenous housing (2002)	11	100.0	–	–	+1
Mainstream community housing (1997)	2	20.0	–	–	+10
Indigenous community housing (2008)	4	57.1	–	–	–
Commonwealth Rent Assistance (1999)	9	90.0	–	–	+10

.. Not applicable. – Nil or rounded to zero. <sup>a</sup> Changes can reflect merging of some indicators and splitting of others, as indicators and measures develop. Data do not capture changes in indicators over time, or replacement of indicators with more meaningful indicators. <sup>b</sup> Information is based only on indicators with data reported and does not reflect many conceptual developments.

Sources: SCRCSSP (1995–2002); SCRGSP (2003–2009a, 2010).



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The Review continues efforts to improve reporting on service provision to Indigenous Australians. Improvements were made to Indigenous data for the Vocational education and training and Aged care services chapters in the 2010 Report. The Indigenous Compendium to the Report, released in April 2010, 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). In March 2009, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference align the OID framework with COAG’s six high-level targets for Closing the Gap in Indigenous outcomes. The structure of the aligned framework remains very similar to that of previous reports, but highlights the COAG targets and priority areas for reform and includes additional indicators.

The 2009 edition of the OID was released in conjunction with a COAG meeting in Darwin with a focus on Indigenous policy. It showed that many Indigenous people have shared in Australia’s recent economic prosperity, with increases in employment, incomes and home ownership. 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.

### *National Agreement reporting*

The first cycle of National Agreement reporting, covering healthcare, affordable housing, disability services and Indigenous reform, was delivered on schedule to the COAG Reform Council on 24 December 2009. This completed the first cycle of performance reporting by the Steering Committee on all six National Agreements under the IGA.

The second cycle of National Agreement reporting, covering the education and training sectors, was delivered on schedule to the COAG Reform Council on 30 June 2010. This second cycle focussed on measuring change over time, and

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included all baseline and current year data, as well as outlining the key changes from the baseline report including new measures for learning outcomes in schools.

Under the IGA, the Ministerial Council for Federal Financial Relations is responsible for the National Performance Reporting System, which includes a program of continuous improvement. On 26 June 2009, the Heads of Treasuries Committee on Federal Financial Relations (established by the MCFFR to oversee this work), requested the Steering Committee to report on data gaps in the National Performance Reporting System. The Steering Committee provided reports to the Heads of Treasuries Committee on data gaps in education and training National Agreements (17 September 2009) and data gaps across all six National Agreements (23 April 2009).

### *Indigenous Expenditure Report*

In 2007, COAG agreed to the reporting of Indigenous expenditure. A Steering Committee was established in May 2008, and the Productivity Commission assumed Secretariat responsibilities from November 2008. A Stocktake Report — including terms of reference for the report and a high level overview of the intended methodology and future development process was endorsed by COAG in July 2009. Following COAG endorsement of the Stocktake Report, the Steering Committee has prepared:

- an *Expenditure Data Manual*
- a *Service Use Measure Definitions Manual*
- a draft *2010 Indigenous Expenditure Report* (currently before governments for sign-off).

Once formal endorsement has been provided by all jurisdictions, the report will be submitted to COAG, through the HoTs and Ministerial Council for Federal Financial Relations process. Initial planning has commenced for the 2011 Indigenous Expenditure Report.

### **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

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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 over 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 (AIHW), and committees established under Ministerial Councils and COAG Working Groups.

Similarly, the Commission's work on the Indigenous Expenditure Report is guided by a Steering Committee comprising officials from each jurisdiction's Treasury department, and representatives of the Commonwealth Grants Commission, the ABS and the AIHW, and is chaired by a representative from the Commonwealth Treasury.

The Review has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage* report. Following the release of the 2009 report, consultations have commenced with government agencies, Indigenous communities and Indigenous organisations across Australia. The Review has presented key results from the report and sought feedback from users regarding the new framework and content of the 2009 report.

## **Timeliness**

The 2008 GTE financial performance monitoring report, the *2010 Report on Government Services* and its Indigenous Compendium, the *Overcoming Indigenous Disadvantage: Key Indicators 2009*, the six National Agreement reports to the COAG Reform Council and two Data Gaps reports to the HoTS Committee 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:

- There were 96 mentions of performance information sourced to the 2010 (and earlier) government services reports used in parliamentary proceedings by

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government and opposition members in Federal and State parliaments during 2009-10.

- A number of journal articles and publications across a wide range of disciplines used the 2010 Report (and earlier reports) as a source. It was cited in articles in the Australian Family Physician; Current Issues in Criminal Justice; Quadrant; Emergency Medicine Australasia; Agenda; Journal of Judicial Administration; Health Economics, Policy and Law; Journal of Paediatrics and Child Health; Australian Health Review; Law & Social Inquiry; Journal of Public Child Welfare; Australian Indigenous Health Review and BMC Public Health.

Other indicators of usefulness from 2009-10 were:

- endorsement of the report by the Heads of Treasuries/ Senior Officials working group review and endorsement of the working group's recommendations and new terms of reference by COAG
- request by the international Forum of Federations to partner with the Review secretariat in an international roundtable on 'Benchmarking in Federal Systems' (to be held in Melbourne in October 2010)
- high levels of demand for the report. More than 1400 bound copies of the report were distributed by the Commission and there were more than 25 500 HTML page requests for the Government Service Provision index page on the Commission's website in 2009-10. There were more than 23 000 HTML page requests for the *2010 Report on Government Services* during 2009-10. The 2009 Report continued to be accessed from the website — with over 23 000 page requests during 2009-10
- extensive media coverage of the *2010 Report on Government Services*. There were 139 press articles drawing on the report and more than 190 mentions of it in electronic media in the period to 30 June 2010
- use of data by researchers: for example, data on Indigenous recipients of CRA were used by the AIHW's report on Indigenous housing needs 2009: a multi-measure needs model (2009, p. 7); data on ambulance services were used in the AIHW's report on Australia's Health (2010, p. 357); data on Commonwealth Rent Assistance were used in the Australian Government's National Housing Supply Council's State of Supply Report 2010 (2010, p. 100); data on TAFE funding in a report in March 2010 by the Australian Education Union (AEU 2010); data on child care in April 2010 by the Office of Early Childhood Education and Child Care (Ellis 2010)
- widespread use of the 2010 (and earlier) government services reports in OECD committee documents and working papers.

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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. The Prime Minister acknowledged the importance of the report when he issued revised terms of reference in March 2009:

Since it was first established in 2003, the OID report has established itself as a source of high quality information on the progress being made in addressing Indigenous disadvantage across a range of key indicators. The OID report has been used by Governments and the broader community to understand the nature of Indigenous disadvantage and as a result has helped inform the development of policies to address Indigenous disadvantage.

More specific evidence of the usefulness of the *Overcoming Indigenous Disadvantage* reports during 2009-10 includes:

- an invitation from COAG for the Commission's Chairman to present the findings from the 2009 report in conjunction with the July 2009 COAG meeting in Darwin
- an invitation from Reconciliation Australia for the Commission's Chairman to present the third 'Closing the Gap' lecture in July 2009 (Banks 2009b)
- nine mentions of the report in the Federal and State parliaments
- extensive references in the 2009 Native Title and Social Justice Reports, issued by the Aboriginal and Torres Strait Islander Social Justice Commissioner (Calma 2009)
- reference to the *Overcoming Indigenous Disadvantage* report in the address to the 2009 National Indigenous Legal Conference delivered by Attorney-General Hon Robert McClelland MP
- recognition of the report as a tool for measuring service delivery and outcomes achieved in the Australian Government's national statement on social inclusion, *A Stronger, Fairer Australia*.
- citations in articles in such journals as the Australian Economic History Review, Oceania, Law Society Journal, Indigenous Law Bulletin, Journal of Epidemiology and Community Health, The Journal of Rural Health, Spectator, Asia-Pacific Journal of Teacher Education, Health Promotion International, Health Education Research, Systematic Practice and Action Research, Campus Review, Health Sociology Review and Ecological Economics
- use in a range of other research papers and reports, for example use in the Indigenous Business Australia Annual Report 2008-09; *Domesticating violence:*

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*Homicide among remote-dwelling Australian Aboriginal people* (Martin 2009);  
Mission Australia's, *Youth Employment Strategy*

- recognition as Australian Policy Online's most read report on Indigenous issues in 2009
- distribution by the Commission of more than 3300 bound copies of the 2009 report and 4500 copies of the 2009 overview
- more than 50 000 HTML page requests of the full 2009 report in 2009-10. The 2007 report also continued to be accessed during 2009-10 with more than 5000 requests
- ongoing media coverage, with 98 press articles and 288 electronic media articles drawing on the report or other sources such as the Indigenous Compendium and Indigenous Expenditure Report in 2009-10.

### *National Agreement reporting*

The Steering Committee's National Agreement reports provide input to COAG Reform Council analysis, and are not aimed at a broader audience. However, the reports are made available on the Review website and as attachments to the CRC's analytical reports. Evidence of the usefulness of the National Agreement reports during 2009-10 include:

- 97 mentions of the reports in Federal and State parliaments
- citations in articles in journals and research papers such as the *Australian Journal of Rural Health*; *Equitable and inclusive VET* (North, Ferrier and Long 2010); *Reviews of regulatory reform: Australia: Towards a seamless national economy* (OECD 2010b).

The Steering Committee's data gaps reports are primarily an input to the HoTs Committee on Federal Financial Relations, but evidence of their broader usefulness include consideration by jurisdictions and data providers in data developments in the healthcare, housing, disability and Indigenous reform areas.

## **Competitive neutrality complaints activities**

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) is an autonomous office located within the Commission. It is staffed on a needs basis from the resources of 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.

## Activities in 2009-10

### *Complaints activity*

While the AGCNCO received no formal written complaints during 2009-10 (table C.9), it received numerous written inquiries that involved considerable investigative work to determine whether a formal complaint should be lodged.

**Table C.9 Formal competitive neutrality complaints, 2005-06 to 2009-10**

<i>Activity</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Written complaints received	4	1	1	0	0
Action:					
New complaints formally investigated	–	1	–	–	–
Complaints investigated but not proceeding to full report <sup>a</sup>	4 <sup>b</sup>	–	1	–	–
Complaints not investigated	1	–	1	–	–
Reports completed		–	1	–	–
Complaints on hand (30 June)		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 2009-10, the AGCNCO provided

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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 policy into their business activities.

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.

### **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.

### **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.



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Feedback from those agencies indicates that the AGCNCO makes a valuable contribution to the effective implementation of nation-wide competitive neutrality policy.

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

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 2007) drew on the rate of return paper.

During 2009-10 there were close to 6000 external requests to the website for AGCNCO investigation reports and about 1400 external requests for AGCNCO research publications.

## **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.

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## Activities in 2009-10

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 2008-09, tabled in Parliament on 17 November 2009, which focused on economic reform and the global financial crisis
  - a companion publication on trade and assistance issues, released in June 2010
- submissions to the House of Representatives Standing Committee on Economics inquiry into raising the level of productivity growth in Australia and to the Senate Select Committee on the National Broadband Network
- a published collection of the Chairman's speeches on structural reform, as well as six other presentations by the Chairman posted on the Commission's website
- the Richard Snape Lecture, *China's Policy Responses to the Global Financial Crisis*, delivered by Professor Yu Yongding (Professor and former Director-General of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences in Beijing) on 25 November 2009
- three Staff Working Papers on agricultural policy, the effects of education and health on wages and productivity, and urban water
- 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. Deputy Chairman Mike Woods has been the Chair of the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in 2009-10
- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
- 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 2009-10 are listed in box C.3. Research projects underway at 30 June 2010 are shown in box C.4.

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### *Richard Snape Lectures*

The presentation by Professor Yu Yongding was the seventh in a series of public 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 Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006), Martin Wolf (associate editor and chief economics commentator at the *Financial Times*), Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles), Patrick Messerlin (Director, Groupe d'Economie Mondiale, Institute d'Etudes Politiques de Paris) and Vittorio Corbo (Governor of the Central Bank of Chile, 2003–2007).

#### **Box C.3 Supporting research and annual reporting publications, 2009-10**

##### **Annual report suite of publications**

Annual Report 2008-09

Trade & Assistance Review 2008-09

##### **Submissions**

Submission to the House of Representatives Standing Committee on Economics: Inquiry into Raising the Level of Productivity Growth in Australia

Submission to the Senate Select Committee on the National Broadband Network

##### **Chairman's published speeches**

An Economy-wide View: Speeches on Structural Reform

##### **Conference/workshop proceedings**

Strengthening Evidence-based Policy in the Australian Federation

##### **Staff working papers**

Modelling the Effects of the EU Common Agricultural Policy

The Effects of Education and Health on Wages and Productivity

Developing a Partial Equilibrium Model of an Urban Water System

##### **2009 Richard Snape Lecture**

China's Policy Responses to the Global Financial Crisis (Professor Yu Yongding)

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#### Box C.4 Supporting research projects underway at 30 June 2010

Public-private partnerships: Insights from Australia's experience in transport	An analysis of the effects of competition on productivity in Australia
Setting priorities in services trade reform (ARC Linkage Grant)*	Investment in intangible assets and Australia's productivity growth – sectoral estimates
Tackling the tough problems in productivity measurement (ARC Linkage Grant)*	The distributional impact of health outlays: developing the research and modelling infrastructure for policy makers (SPIRT project)*
Partial input and productivity measures as indicators of environmental impacts	Childhood obesity: an economic perspective
Links between literacy and numeracy skills and labour market outcomes	Women working: Labour force participation of women aged 45 years and older
Assessing the social and fiscal policy implications of an ageing population (ARC Linkage Grant)*	

\*Collaborative projects. Information on individual research projects is available from the Commission's website, [www.pc.gov.au](http://www.pc.gov.au).

#### *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).

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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 104 presentations given by the Chairman, Commissioners and staff in 2009-10 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 the staff working paper on the EU Common Agricultural Policy involved:

- consultations with a range of external parties and sectoral experts
- technical consultations with a number of externally based modelling experts on version 7 of the GTAP model
- the use of internal and external referees, including referees from the Australian Bureau of Agricultural and Resource Economics, the OECD and the International Food Policy Research Institute.

Research projects can involve consultations with key interested parties on the issues they view as important and to obtain access to information. For example, the staff working paper on developing a partial equilibrium model of an urban water system benefited substantially from comments and feedback received during a workshop attended by a wide range of key industry participants with expertise in the sector, including local utilities, regulators and academics.

Research is also monitored internally as it progresses, and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences.

Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees for staff working papers in 2009-10 were drawn from RMIT, the Melbourne Institute, the University of Sydney, the Australian National University, the Australian Bureau of Agricultural and Resource Economics, the OECD, Purdue University and the International Food Policy Research Institute.

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

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- an invitation for the Commission's Chairman to present the keynote address to the Official Statistics *'Forum 2010'* in Wellington, New Zealand
  - the staff working paper on urban water modelling was awarded the best contributed paper prize at the Australian Conference of Economists in September 2009
  - invitations during the year for the Commission to be a research partner in ARC linkage projects
  - the large number of international delegations and visitors in 2009-10 that visited the Commission to discuss aspects of its research program and findings (table E. 2).

### **Timeliness**

The Commission's annual report for 2008-09, which included a theme chapter on reform issues and the global financial crisis, was completed on schedule on 21 October 2009 and tabled in Parliament on 17 November 2009. The annual report companion volume (*Trade & Assistance Review 2008-09*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

### **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 2009-10 include the following:

- Outputs from the Commission's stream of productivity research were widely used in 2009-10. For example, the Australian Chamber of Commerce and Industry drew on Commission analysis of productivity trends (Dolman, Parham and Zheng 2007) in a report on boosting Australia's productivity (ACCI 2009); the OECD drew on the Commission's recent productivity submission (PC 2009e) when analysing policy responses to the economic crisis (OECD 2010e); the Department of Innovation, Industry, Science and Research drew on the Commission's submission on productivity growth (PC 2009e) when discussing innovation and rising levels of productivity (DIISR 2010); and a Budget Statement on skills and infrastructure drew on Commission estimates of

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improvements in labour productivity resulting from increases in literacy and numeracy (Gillard and Albanese 2010).

- Commission research outputs on labour markets also continued to be widely cited and used throughout the year. For example, a report by the Grattan Institute (Jensen 2010) on Australian teachers drew on Commission research on the effects of education and health on wages and productivity (Forbes, Barker and Turner 2010); a report by Diversity Council Australia on a national survey of employees released in July 2010 drew on Commission work on part time employment (Abhayaratna et al. 2008); and the then Deputy Prime Minister also drew on this research when discussing the effects of literacy and numeracy on aggregate labour productivity (Gillard 2010b).
- The Commission's environmental research continued to be used in 2009-10. For example, in April 2010 the Australian Bureau of Agricultural and Resource Economics released a report on water purchases (Hone et al. 2010) which drew on a number of Commission publications, including a 2004 staff working paper on irrigation water (Appels, Douglas and Dwyer 2004); and in January 2010 the OECD used research on water trading (Peterson et al. 2004) in a paper on quota allocations in international fisheries (OECD 2010c).
- Past Commission research in a diverse range of areas continued to be used in 2009-10, demonstrating the considerable 'shelf life' of Commission research outputs. For example, in April 2010 the Australian Council of Deans of Agriculture (Pratley and Hay 2010) drew on Commission research from 2005 on the level of educational qualifications in the agricultural sector (PC 2005e); a report by the Rural Industries Research and Development Corporation (RIRDC 2009a) on the legal training needs of primary producers, and an ABARE conference paper (ABARE 2010) drew on the same Commission research (PC 2005e); in March 2010 past Commission research on managed competition in health policy was used when discussing health reform (Richardson 2010); in April 2010 the Australian Bureau of Statistics released revised statistical standards in the Australian Tourism Satellite Account that drew on past Commission work on tourism (PC 2005g); and a Parliamentary Library Background Note on taxation released in September 2009 drew on findings in a 1998 staff research paper on state tax reform.
- The OECD continued to make widespread use of Commission research within its own published research in 2009-10. This included use of Commission research on casual contract employment (Murtough and Waite 2000) in a report on collective bargaining and enforcement (OECD 2009c); use of Commission research on intangible assets (Barnes and McClure 2009) in a report on innovation policy (OECD 2009d) and in a report on the economy of Denmark (OECD 2009l); use of Commission research on infrastructure and productivity

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(Shanks and Barnes 2008) in a report on long-term growth and the global economic crisis (OECD 2010b); use of work on public infrastructure financing (Chan et al. 2009) in a survey of public-private partnerships (OECD 2010c); and use of past Commission research on foreign direct investment restrictiveness indexes (Hardin and Holmes 1997) in an update of the use of such indexes (OECD 2010d).

- The *Trade & Assistance Review*, which is part of the Commission's suite of annual reporting, also continued to be used throughout the year in discussions of industry assistance and other policies. This included use in Parliamentary Library reports (table C.2); by the Commonwealth Treasury when discussing estimates of the value of assistance to various industries (Treasury 2010b); use by academics and policy commentators (Wallace 2010, Wahlquist 2010); and use in editorials in major newspapers and in other media coverage. The Commission received over 5 000 external requests in 2009-10 for the index pages of the Review on the Commission's website.
- Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables C.1 and C.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 five editorials in major newspapers in 2009-10. To 30 June 2010, for the reports listed in box B.3, there were more than 26 000 external requests for the index pages on the Commission's website. There was a total of more than 107 000 external requests for the 63 supporting research reports for which website usage was tracked, and more than 41 000 requests for speeches by the Commission's Chairman.



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## D 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 2009-10 and previous years. It also reports on commissioned projects received since 30 June 2010.

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 D.1 summarises activity since the Commission's 2008-09 annual report and indicates where relevant information can be found.

**Table D.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>					
20-10-08	Australia's Gambling Industries	AR 08-09	Report completed 26 February 2010	page 188	page 191
19-3-09	Review into the Regulation of Director and Executive Remuneration in Australia	AR 08-09	Report completed 19 December 2009	page 187	page 188
23-3-09	Australia's Anti-dumping and Countervailing System	AR 08-09	Report completed 18 December 2009	page 185	na
29-9-09	Wheat Export Marketing Arrangements	AR 08-09	Report completed 1 July 2010	na	na
15-2-10	Rural Research and Development Corporations	page 176	in progress	na	na
17-2-10	Disability Care and Support	page 177	in progress	na	na
27-4-10	Caring for Older Australians	page 182	in progress	na	na
19-7-10	Australia's Urban Water Sector	page 185	in progress	na	na
<b>Other commissioned projects</b>					
28-2-07*	Annual Review of Regulatory Burdens on Business – Social and Economic Infrastructure Services	AR 06-07*	Report completed 31 August 2009	AR 08-09	page 191
28-2-07*	Annual Review of Regulatory Burdens on Business – Business and Consumer Services	AR 06-07*	Report completed 31 August 2010	page 201	na
13-11-08	Restrictions on the Parallel Importation of Books	AR 08-09	Report completed 30 June 2009	AR 08-09	page 204
23-12-08	Performance Benchmarking of Australian Business Regulation: Food Safety and OHS	AR 08-09	Reports completed 15 December 2009 (Food Safety) and 23 March 2010 (OHS)	page 192	na
17-3-09	Review of the Contribution of the Not-For-Profit Sector	AR 08-09	Report completed 29 January 2010	page 195	page 197

15-5-09	Performance of Public and Private Hospital Systems	AR 08-09	Report completed 3 December 2009	page 197	na
24-7-09	Study into Market Mechanisms for Recovering Water in the Murray Darling Basin	AR 08-09	Report completed 18 March 2010	page 200	na
27-11-09	Bilateral and Regional Trade Agreements	page 176	in progress	na	na
12-4-10	Performance Benchmarking of Australian Business Regulation: Planning and Zoning and Land Development Assessments	page 180	in progress	na	na
22-4-10	Education and Training Workforce	page 180	in progress	na	na
16-6-10	Impacts and Benefits of COAG Reforms	page 184	in progress	na	na

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**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 2008-09 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.

### **Bilateral and Regional Trade Agreements**

On 27 November 2009, the Assistant Treasurer requested that the Commission undertake a study into the impact of bilateral and regional trade agreements on trade and investment barriers, and on Australia's trade and economic performance, including their contribution to efforts to boost Australia's engagement in the evolving regional economic architecture.

In undertaking the study, the Commission is to consider a broad range of issues, including the:

- contribution of bilateral and regional trade agreements to reducing trade and investment barriers and safeguarding against the introduction of new barriers
- role of such agreements in lending support to the international trading system and the World Trade Organization
- potential for trade agreements to facilitate adjustment to global economic developments and to promote regional integration
- impact of trade agreements on Australia's trade and economic performance, in particular any impact on trade flows, unilateral reform, behind-the-border barriers, investment returns and productivity growth
- scope for Australia's trade agreements to reduce trade and investment barriers of trading partners or to promote structural reform and productivity growth in partner countries.

The Commission is required to produce and publish a final report within twelve months of commencement of the study.

### **Rural Research and Development Corporations**

On 15 February 2010, the Assistant Treasurer asked the Commission to undertake an inquiry into rural research and development corporation arrangements in Australia.

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In undertaking the inquiry, the Commission is requested to:

- examine the economic and policy rationale for Commonwealth Government investment in rural R&D
- examine the appropriate level of, and balance between public and private investment in rural R&D
- consider the effectiveness of the current Rural Development Corporation (RDC) model in improving competitiveness and productivity in the agriculture, fisheries and forestry industries through research and development
- examine the appropriateness of current funding levels and arrangements for agricultural research and development, particularly levy arrangements, and Commonwealth matching and other financial contributions to agriculture, fisheries and forestry RDCs
- consider any impediments to the efficient and effective functioning of the RDC model and identify any scope for improvements, including in respect to governance, management and any administrative duplication
- consider the extent to which the agriculture, fisheries and forestry industries differ from other sectors of the economy with regard to research and development; how the current RDC model compares and interacts with other research and development arrangements, including the university sector, cooperative research centres and other providers; and whether there are other models which could address policy objectives more effectively
- examine the extent to which RDCs provide an appropriate balance between projects that provide benefits to specific industries versus broader public interests including examining interactions and potential overlaps across governments and programs, such as mitigating and adapting to climate change; managing the natural resource base; understanding and responding better to markets and consumers; food security, and managing biosecurity threats
- examine whether the current levy arrangements address free rider concerns effectively and whether all industry participants are receiving appropriate benefits from their levy contributions.

A final report is to be produced within twelve months of receipt of the reference.

## **Disability Care and Support**

On 17 February 2010, the Assistant Treasurer asked the Commission to conduct an inquiry into a national disability long-term care and support scheme in Australia.

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The Commission is to assess the costs, cost effectiveness, benefits and feasibility of an approach which:

- provides long-term essential care and support for eligible people with a severe or profound disability, on an entitlement basis and taking into account the desired outcomes for each person over a lifetime
- is intended to cover people with disability not acquired as part of the natural process of ageing
- calculates and manages the costs of long-term care and support for people with severe and profound disability
- replaces the existing system funding for the eligible population
- ensures a range of support options is available, including individualised approaches
- includes a coordinated package of care services which could include accommodation support, aids and equipment, respite, transport and a range of community participation and day programs available for a person's lifetime
- assists the person with disability to make decisions about their support
- provides support for people to participate in employment where possible.

In undertaking the inquiry, the Commission is to:

- examine a range of options and approaches, including international examples, for the provision of long-term care and support for people with severe or profound disability
- include an examination of a social insurance model on a no-fault basis, reflecting the shared risk of disability across the population
- examine other options that provide incentives to focus investment on early intervention, as an adjunct to, or substitute for, an insurance model
- consider the following specific design issues of any proposed scheme:
  - eligibility criteria for the scheme, including appropriate age limits, assessment and review processes
  - coverage and entitlements (benefits)
  - the choice of care providers including from the public, private and not-for-profit sectors
  - contribution of, and impact on, informal care
  - the implications for the health and aged care systems

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- the interaction with, or inclusion of, employment services and income support
  - where appropriate, the interaction with:
    - ... national and state-based traumatic injury schemes, with particular consideration of the implications for existing compensation arrangements
    - ... medical indemnity insurance schemes
  - consider governance and administrative arrangements for any proposed scheme including:
    - the governance model for overseeing a scheme and prudential arrangements
    - administrative arrangements, including consideration of national, state and/or regional administrative models
    - implications for Commonwealth and State and Territory responsibilities
    - the legislative basis for a scheme including consideration of head of power
    - appeal and review processes for scheme claimants and participants
  - consider costs and financing of any proposed scheme, including:
    - the costs in the transition phase and when fully operational, considering the likely demand for and utilisation under different demographic and economic assumptions
    - the likely offsets and/or cost pressures on government expenditure in other systems as a result of a scheme including income support, health, aged care, disability support system, judicial and crisis accommodation systems
    - models for financing including general revenue, hypothecated levy on personal taxation, a future fund approach with investment guidelines to generate income
    - contributions of Commonwealth and State and Territory governments
    - options for private contributions including copayments, fees or contributions to enhance services
  - consider implementation issues of any proposed scheme, including:
    - changes that would be required to existing service systems
    - workforce capacity
    - lead times, implementation phasing and transition arrangements to introduce a scheme with consideration to service and workforce issues, fiscal outlook, and state and territory transitions.

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The Government also announced that it would establish an Independent Panel of persons with relevant expertise to act in an advisory capacity to the Commission and the Government, and report to Government throughout the inquiry.

The Commission is required to provide a final report by 31 July 2011.

### **Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Land Development Assessments**

On 12 April 2010 the Commission received a request to commence the third year of its Performance Benchmarking of Australian Business Regulation study. This followed agreement by the COAG Business Regulation and Competition Working Group (BRCWG) that the Commission should focus on States and Territories' planning and zoning systems and land development assessments in the third year of its study.

As part of its study, the Commission is requested to examine and report on the operations of the States and Territories' planning and zoning systems, particularly as they impact on business compliance costs, competition and the overall efficiency and effectiveness of the functioning of cities. The Commission is asked to report on planning and zoning laws and practices which unjustifiably restrict competition and best practice approaches that support competition, including:

- measures to prevent 'gaming' of appeals processes
- processes in place to maintain adequate supplies of land suitable for a range of activities
- ways to eliminate any unnecessary or unjustifiable protections for existing businesses from new and innovative competitors.

The Commission is required to provide a report by the end of April 2011.

### **Education and Training Workforce**

On 22 April 2010, the Assistant Treasurer asked the Commission to undertake a research study to examine issues impacting on the workforces in the early childhood development, schooling and vocational education and training sectors.

The Commission is asked to provide advice on workforce planning, development and structure of the early childhood development, schooling and VET workforces in the short, medium and long term. In undertaking its study, the Commission is requested to consider and provide advice on:



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- The current and future demand for the workforces, and the mix of knowledge and skills required to meet service need. This will include consideration of:
    - population distribution and demographic trends, jurisdictional and regional analysis
    - significant shifts in skill requirements
    - policy and regulation given the agreed COAG outcomes (particularly the National Early Childhood Development Strategy, relevant National Partnerships, the National Education Agreement and the National Indigenous Reform Agreement).
  - The current and future supply for the workforces, including:
    - demographic, socio-cultural mix and composition of the existing workforces, and jurisdictional and regional analysis
    - elements such as remuneration, pay equity/differentials, working conditions, professional status and standing, retention, roles and responsibilities, professional development, and training and support structures
    - qualifications pathways, particularly pathways that will ensure accessibility and appropriateness of training to meet the qualifications and competencies required for the various occupations in the workforces.
  - The current and future structure and mix of the workforces and their consequential efficiency and effectiveness, including:
    - the composition and skills of the existing workforces
    - the productivity of the workforces and the scope for productivity improvements
    - the most appropriate mix of skills and knowledge required to deliver on the outcomes in the COAG national framework.
  - Workforce planning, development and structure in the short, medium and long term, including:
    - policy, governance and regulatory measures to maximise the efficiency and effectiveness of the workforces in order to achieve the outcomes set out in the COAG frameworks
    - changes to ongoing data collection to establish a robust evidence base, provide for future workforce planning and development and meet reporting requirements.

The Commission is also required to consider a range of factors that have particular impact on each sector, and these are set out in greater detail in the Terms of Reference.

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In addition to sector-specific issues, the Commission is requested to consider whether reducing sectoral divides between workforces in these sectors could support a more learner-focused approach, achieve better individual outcomes and increase the efficiency of workforce development and planning. The Commission is also to give consideration to factors that impact on building Indigenous workforce capability in recognition of the effect this will have on improving outcomes for, employment of, and services to Indigenous Australians.

The Commission is required to provide a report, dealing with the VET workforce, within twelve months of receipt of the reference; and a second and third report, dealing with the early childhood development and schooling workforces, within eighteen and twenty four months respectively of receipt of the reference.

### **Caring for Older Australians**

On 27 April 2010 the Assistant Treasurer asked that the Commission undertake a public inquiry into Australia's aged care system.

The Commission is requested to:

- Systematically examine the social, clinical and institutional aspects of aged care in Australia, building on the substantial base of existing reviews into this sector.
- Develop regulatory and funding options for residential and community aged care (including services currently delivered under the Home and Community Care program for older people) that:
  - ensure access (in terms of availability and affordability) to an appropriate standard of aged care for all older people in need, with particular attention given to the means of achieving this in specific needs groups including people living in rural and remote locations, Aboriginal and Torres Strait Islander people, culturally and linguistically diverse communities, and veterans
  - include appropriate planning mechanisms for the provision of aged care services across rural, remote and metropolitan areas and the mix between residential and community care services
  - support independence, social participation and social inclusion, including examination of policy, services and infrastructure that support older people remaining in their own homes for longer, participating in the community, and which reduce pressure on the aged care system
  - are based on business models that reflect the forms of care that older people need and want, and that allow providers to generate alternative revenue

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- streams by diversifying their business models into the delivery of other service modalities
- are consistent with reforms occurring in other health services and take into account technical and allocative efficiency issues, recognising that aged care is an integral part of the health system and that changes in the aged care system have the potential to adversely or positively impact upon demand for other care modalities
  - are financially sustainable for government and individuals with appropriate levels of private contributions, with transparent financing for services, that reflect the cost of care and provide sufficient revenue to meet quality standards, provide an appropriately skilled and adequately remunerated workforce, and earn a return that will attract the investment, including capital investment, needed to meet future demand. This should take into consideration the separate costs associated with residential services, which include but are not limited to the costs of accommodation and direct care, and services delivered in community settings
  - consider the regulatory framework, including options to allow service providers greater flexibility to respond to increasing diversity among older people in terms of their care needs, preferences and financial circumstances, while ensuring that care is of an appropriate quality and taking into account the information and market asymmetries that may exist between aged care providers and their frail older clients
  - minimise the complexity of the aged care system for clients, their families and providers and provide appropriate financial protections and quality assurance for consumers
  - allow smooth transitions for consumers between different types and levels of aged care, and between aged, primary, acute, sub-acute, disability services and palliative care services, as need determines.
- Systematically examine the future workforce requirements of the aged care sector, taking into account factors influencing both the supply of and demand for the aged care workforce, and develop options to ensure that the sector has access to a sufficient and appropriately trained workforce.
  - Recommend a path for transitioning from the current regulatory arrangements to a new system that ensures continuity of care and allows the sector time to adjust.
  - Examine whether the regulation of retirement specific living options, including out-of-home services, retirement villages such as independent living units and serviced apartments, should be aligned more closely with the rest of the aged care sector and, if so, how this should be achieved.

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- Assess the medium and long-term fiscal implications of any change in aged care roles and responsibilities.

A draft report is to be produced by December 2010 and a final report by April 2011.

## **Impacts and Benefits of COAG Reforms**

On 16 June 2010 the Assistant Treasurer asked the Commission to report to COAG on the impacts and benefits of COAG's reform agenda every two to three years. This followed an earlier request by COAG in March 2008 that the Commission be asked to undertake this work.

As part of this request, the Commission has been asked that reporting priorities take into account:

- the fiscal impact of reform on each level of government
- the availability of new material on COAG's reform agenda or implementation plans
- the implementation of a significant body of reform over a sufficient period to enable a meaningful review of the likely impacts and benefits of that reform
- any emerging concern about the potential impacts or benefits of a reform.

The Commission's reports to COAG should provide information on:

- the economic impacts and benefits of reform and outcome objectives, including estimates of the economy-wide, regional and distributional effects of change
- assessments, where practicable, of whether Australia's reform potential is being achieved and the opportunities for improvement. The analysis should recognise the different nature of sectoral productivity-based and human capital reforms and the likely time paths over which benefits are likely to accrue.

In preparation for its inaugural full report, the Commission has been requested to provide a 'framework' report to COAG outlining its proposed approach to reporting on the impacts and benefits of COAG's reform agenda.

The Commission's framework report is to be submitted to COAG by 31 December 2010. The Commission is then to complete full reports at 2-3 year intervals dated from 1 January 2009, in accordance with directions for individual reports from the Assistant Treasurer.

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## **Australia's Urban Water Sector**

On 19 July 2010 the Assistant Treasurer asked the Commission to undertake an inquiry examining the case for microeconomic reform of Australia's urban water sector.

In undertaking the inquiry, the Commission is to report on:

- Opportunities for efficiency gains in the structural, institutional, regulatory and other arrangements in the Australian urban water and wastewater sectors.
- Options to achieve the efficiency gains identified, with these options to be subjected to a rigorous cost benefit analysis, including using quantitative assessments to the fullest extent possible, to identify the economic, social and environmental impacts; the impacts on Australian governments, business and consumers; and the propensity to facilitate supply and demand planning and decision-making in the medium and long term.
- A proposed work program including implementation plans for the options, identifying: practical actions that the Commonwealth, state and territory governments and local councils can undertake to implement options for reforms, including any transitional arrangements; priority areas where greatest efficiency gains are evident and where early action is practicable; and quantitative and qualitative indicators for efficiency gains in the urban water and waste water sectors.

The Commission is to provide both a draft and final report, with the final report provided within twelve months of receipt of the reference.

## **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 14 October 2010. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

## **Australia's Anti-dumping and Countervailing System**

Inquiry Report No. 48 signed 18 December 2009, report released 27 May 2010.

The Commission's main findings and recommendations were that:

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- The Australian anti-dumping system, which is based on agreed WTO rules and procedures, benefits a small number of import competing firms, but imposes greater costs on the rest of the economy.
  - However, this net economic cost is likely to be very small. And the ability for Australian industries, like those in most other countries, to use the system to address what are perceived by many to be ‘unfair’ trading practices, may have lessened resistance to more significant tariff reforms.
  - This ‘political economy’ argument for retaining the system would be strengthened by changes to address a number of deficiencies in the current arrangements which can add to the costs for the community. In particular:
    - there is no consideration of the wider economic impacts of anti-dumping measures
    - measures can too easily become akin to long-term protection, or outdated in the face of changing market circumstances
    - decision-making and its outcomes are not sufficiently transparent.
  - Introduction of a ‘bounded’ public interest test, drawing on similar provisions overseas, would be a practical means to take account of wider impacts and prevent the imposition of measures that would be disproportionately costly.
    - The test would embody a presumption in favour of measures where there has been injurious dumping or subsidisation.
    - But it would also detail a small number of specific circumstances where measures would not be in the public interest — for example, where they would be ineffectual in removing injury; or would impose large costs on downstream users relative to the benefits for the applicant industry.
    - Customs would have to complete assessments against the test within 30 days, and then advise the Minister on whether any of these circumstances applied.
  - Other changes that should be made to the current arrangements to achieve a better balance between benefits and costs include:
    - allowing only one three-year extension of measures after the initial five-year term
    - providing for annual adjustments to the magnitude of all measures
    - aligning Australia’s list of actionable subsidies with the WTO lists
    - increasing the robustness of the appeals process
    - imposing a time limit on decisions by the Minister
    - enhancing public reporting on the basis for decisions and their outcomes.

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- To provide stakeholders with time to adjust, there should be a two-year delay before the public interest test and changed continuation requirements take effect. The new arrangements should be reviewed five years after that.

## **Regulation of Director and Executive Remuneration in Australia**

Inquiry Report No. 49 signed 19 December 2009, report released 4 January 2010.

The Commission's main findings and recommendations were that:

- Strong growth in executive remuneration from the 1990s to 2007, and instances of large payments despite poor company performance, have fuelled community concerns that executive remuneration is out of control.
- Pay for CEOs of the top 100 companies appears to have grown most strongly, at 13 per cent real a year, from the mid-90s to 2000, and then increased by around 6 per cent annually in real terms to 2007. Since 2007 average remuneration has fallen by around 16 per cent a year, returning it to 2004-05 levels.
  - The rise and decline in executive pay over the 2000s largely reflects increased use of pay structures linked to company performance.
- Executive pay varies greatly across Australia's 2000 public companies.
  - For the top 20 CEOs, in 2008-09 it averaged \$7.2 million (110 x AWE) compared to around \$260 000 for CEOs of the smallest listed companies (4 x AWE).
  - Generally speaking, Australian executives appear to be paid in line with smaller European countries, but below the United Kingdom and United States (the global outlier).
- Liberalisation of the Australian economy and global competition, increased company size, and the shift to incentive pay structures, have been major drivers of executive remuneration — companies compete to hire the best person for the job, and try to structure pay to maximise the executive's contribution to company performance.
- Nonetheless, some past trends and specific pay outcomes appear inconsistent with an efficient executive labour market, and possibly weakened company performance.
  - Incentive pay 'imported' from the United States and introduced without appropriate hurdles spurred pay rises in the 1990s partly for 'good luck'. More recently, complex incentive pay may have delivered unanticipated 'upside'.

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- Some termination payments look excessive and could indicate compliant boards.
  - Instances of ‘excessive’ payments and perceived inappropriate behaviour could also reduce investor and community trust in the corporate sector more broadly, with adverse ramifications for equity markets.
  - But the way forward is not to by-pass the central role of boards. Capping pay or introducing a binding shareholder vote on it would be impractical and costly.
  - Instead, the corporate governance framework should be strengthened by:
    - removing conflicts of interest, through independent remuneration committees and improved processes for use of remuneration consultants
    - promoting board accountability and shareholder engagement, through enhanced pay disclosure and strengthening the consequences for those boards that are unresponsive to shareholders’ ‘say on pay’.
  - These reforms would significantly reduce the likelihood in future of inappropriate remuneration outcomes, or those that shareholders would find objectionable.

### *Government decision*

On 16 April 2010 the Government released a detailed response to the Commission’s report (Swan, Bowen and Sherry 2010). Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six of the in-principle acceptances provided by the Government subject to additional further strengthening.

The Government did not support one recommendation on the removal of cessation of employment as a trigger for the taxation of deferred employee share schemes. It stated that, in its view, removal would increase the concessionality of schemes, providing a disproportionately large benefit to higher-income employees.

## **Australia’s Gambling Industries**

Inquiry Report No. 50 signed 26 February 2010, report released 23 June 2010.

The Commission’s main findings and recommendations were that:

- The rapid growth following liberalisation of gambling in the 1990s has given way to more ‘mature’ industry growth.



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- Total recorded expenditure (losses) in Australia reached just over \$19 billion in 2008-09, or an average of \$1500 per adult who gambled.
  - Gambling is an enjoyable pursuit for many Australians. As much as possible, policy should aim to preserve the benefits, while targeting measures at gamblers facing significant risks or harm.
  - While precision is impossible, various state surveys suggest that the number of Australians categorised as ‘problem gamblers’ ranges around 115 000, with people categorised as at ‘moderate risk’ ranging around 280 000.
  - It is common to report prevalence as a proportion of the adult population, but this can be misleading for policy purposes, given that most people do not gamble regularly or on gambling forms that present significant difficulties.
  - The risks of problem gambling are low for people who only play lotteries and scratchies, but rise steeply with the frequency of gambling on table games, wagering and, especially, gaming machines.
  - Most policy interest centres on people playing regularly on the ‘pokies’. Around 600 000 Australians (4 per cent of the adult population) play at least weekly.
    - While survey results vary, around 15 per cent of these regular players (95 000) are ‘problem gamblers’. And their share of total spending on machines is estimated to range around 40 per cent.
  - The significant social cost of problem gambling — estimated to be at least \$4.7 billion a year — means that even policy measures with modest efficacy in reducing harm will often be worthwhile.
  - Over the last decade, state and territory governments have put in place an array of regulations and other measures intended to reduce harm to gamblers.
    - Some have been helpful, but some have had little effect, and some have imposed unnecessary burdens on the industry.
  - A more coherent and effective policy approach is needed, with targeted policies that can effectively address the high rate of problems experienced by those playing gaming machines regularly.
  - Recreational gamblers typically play at low intensity. But if machines are played at high intensity, it is easy to lose \$1500 or more in an hour.
    - The amount of cash that players can feed into machines at any one time should be limited to \$20 (currently up to \$10 000).
    - There are strong grounds to lower the bet limit to around \$1 per ‘button push’, instead of the current \$5–10. Accounting for adjustment costs and technology, this can be fully implemented within six years.

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- Shutdown periods for gaming in hotels and clubs are too brief and mostly occur at the wrong times. They should commence earlier and be of longer duration.
  - There should be a progressive move over the next six years to full ‘pre-commitment’ systems that allow players to set binding limits on their losses.
    - Under a full system, there would be ‘safe’ default settings, with players able to choose other limits (including no limit).
    - In the interim, a partial system with non-binding limits would still yield benefits, and provide lessons for implementing full pre-commitment.
  - Better warnings and other information in venues would help. But school-based information programs could be having perverse effects and should not be extended without review.
  - Relocating ATMs away from gaming floors and imposing a \$250 daily cash withdrawal limit in gaming venues would help some gamblers. But the net benefits of removing ATMs entirely from venues are uncertain.
  - Effective harm minimisation measures for gaming machines will inevitably reduce industry revenue, since problem gamblers lose so much. However, this would not occur overnight and the reductions may be offset by other market developments.
  - Problem gambling counselling services have worked well overall. But there is a need for enhanced training and better service coordination.
  - Online gaming by Australians appears to have grown rapidly despite the illegality of domestic supply. Gamblers seeking the benefits it offers are exposed to additional risks and harms from offshore sites that could be avoided under carefully regulated domestic provision.
    - Liberalising the domestic supply of online poker card games, accompanied by appropriate harm minimisation measures, would test whether managed liberalisation should be extended to all online gaming forms.
  - Recently enacted race fields legislation has been the main way jurisdictions have addressed the dual reform challenges of preventing free-riding by wagering operators and facilitating a competitively neutral wagering industry.
    - Should the race fields legislation be unsuccessful in either respect over the next three years, a national funding model should be established, based on federal legislation and with an independent price-setting body.
  - The arguments for retaining the exclusive right by the TABs to provide off-course retail wagering products are not compelling.

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- Governments have improved their policy-making and regulations with respect to gambling, but significant governance flaws remain in most jurisdictions, including insufficient transparency, regulatory independence and coordination.
    - There is a particular need to improve arrangements for national research.

### *Government decision*

The Australian Government released an initial response to the Commission's report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. For example, it stated that it:

... supports the use of pre-commitment technology to tackle problem gambling and is committed to working with State and Territory Governments, and industry, in implementing this technology. (Macklin, Sherry and Conroy 2010)

The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.

## **Annual Review of Regulatory Burdens on Business — Social and Economic Infrastructure Services**

Research Report completed 31 August 2009, report released 15 September 2009.

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 the regulatory burdens on businesses in Australia's primary sector.

The third yearly review reported on regulatory burdens on business in the social and economic infrastructure services sector. This covered issues including energy, construction, transport, media and telecommunications, health care and social assistance, education, aged care and child care.

### *Government decision*

On 22 December 2009 the Government released a detailed response to the report (Australian Government 2009e). Of the Commission's 42 responses, the Government accepted or accepted in principle 26 responses, noted 12 and did not accept a further four.

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The Government accepted responses across a broad range of areas, including the need for a further evaluation of regulatory safeguards in aged care, the need for further improvements in information provision in child care, the need for review of the costs and benefits of identity check for prepaid mobile phone services, amendment of the Australian Energy Market Agreement, changes to relieve the reporting burden on business in the energy sector, and changes to streamline reporting requirements in the education sector.

The Government did not support four responses:

- Regarding the Commission's recommendation that the Government should amend the missing resident reporting requirements in the Accountability Principles 1998, the Government stated that the existing requirements are needed to facilitate the rapid reporting of risks to residents and to ensure that facilities have appropriate systems in place.
- In relation to the Commission's recommendation that the prudential standards in aged care be streamlined, the Government stated that the current requirements were necessary to ensure that residents and prospective residents have access to information about the financial status of approved providers and their performance.
- In response to the Commission's recommendation that the Government should allow residential aged care providers choice of accreditation agencies, the Government stated that it supported the continuation of a single accreditation provider to ensure consistency of accreditation.
- The recommendation that the *Aviation Transport Security Act 2004* be amended to enable the granting of exemptions, variation and alternative procedures was also not supported. The Government stated that the Act currently provides industry with the ability to formulate processes and procedures to meet regulatory requirements in a way that best suits their business.

## **Performance Benchmarking of Australian Business Regulation: Food Safety and Occupational Health and Safety**

Research Report on Food Safety completed 15 December 2009, report released 22 December 2009.

Key points from the report were that:

- Australian and New Zealand regulators generally use a cooperative, graduated approach to achieve compliance. They apply risk management and try to minimise adverse side effects on business.

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- Consistent with the Joint Food Standards Setting Treaty, New Zealand only adopts a minority of the Australia New Zealand Food Standards. New Zealand has separate food hygiene standards for consumer food safety which are much more prescriptive.
  - The Model Food Act and Australia New Zealand Food Standards Code in Australia help to achieve some level of harmonisation between states and territories in their consumer food safety requirements. The most significant difference occurs over requirements to employ a food safety supervisor and to prepare a food safety plan.
  - Local councils play a key role in the administration and enforcement of consumer food safety regulation, except in the Australian territories. There are significant differences in councils' fees and charges, inspection rates, enforcement practices and transparency of their activities, which can lead to unnecessary burdens on business. The NSW Food Authority has achieved greater coordination and clarity by establishing a memorandum of understanding with local councils.
  - There are significant differences among the core state/territory consumer food safety regulators in the level and nature of charges; taxpayer versus business funding; risk classifications; the rate and duration of audits/inspections; appeal mechanisms and transparency.
  - Across the Australian states and territories, there is far less harmonisation in regulation at the primary production and processing (PPP) end of the food chain:
    - there is no model food safety legislation covering PPP
    - progress in developing national PPP standards has been slow
    - significant differences in the interpretation and implementation of PPP standards persist in jurisdictions.
  - The processes for registering and specifying appropriate maximum residue limits of chemicals are more streamlined and timely in New Zealand than in Australia.
  - Comparing how Australia and New Zealand regulate internationally traded food:
    - Australia's charges are generally higher, its fee structure is more complex, and there is jurisdictional diversity and agency duplication
    - in both countries, red meat exporters incur greater costs and more regulatory intervention than other primary product exporters
    - some products are subject to the strictest export requirements irrespective of destination, extending to domestically sold products in New Zealand's case

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- Australia’s regulatory system for exports relies less on electronic processing to reduce business compliance costs and is less able to embrace shifts toward outcome-based standards in the domestic food safety system.

Research Report on Occupational Health and Safety completed 23 March 2010, report released 6 April 2010.

Key points from the report were that:

- This study compares inter-jurisdictional differences in occupational health and safety (OHS) legislation in 2008-09 and its administration and enforcement and the costs they imposed on business. Such benchmarking provides information which can support current moves to establish a consistent regulatory approach to OHS across all jurisdictions.
- Generally, OHS performance has been improving. National injury incidence rates have fallen almost 20 per cent between 2002-03 and 2007-08.
- The core OHS Acts of all jurisdictions are all based on the principle of allocating duties of care to those most able to influence OHS outcomes and yet the Acts differ.
- In addition, there are 70 industry or hazard-specific Acts which regulate OHS in some way. For states with separate mining regulations (New South Wales, Queensland, Western Australia) compliance burdens on large mining companies are greater in Western Australia which makes limited use of performance and process based regulation.
- The burdens from jurisdictional differences in OHS regulation fall most heavily on businesses which operate in more than one state or territory.
- Among regulations aimed at improving the culture of compliance, different requirements across jurisdictions for record keeping, training, and worker participation and representation result in differences in the burdens imposed on business.
- Among regulations aimed at managing particular hazards, the different requirements across the jurisdictions with regard to asbestos, manual handling and falls result in differences in the burdens imposed on business.
- Given the costs they impose, all jurisdictions give relatively less attention to psychosocial hazards than to physical hazards. All jurisdictions provide guidance material on various aspects of psychosocial health. Victoria and New South Wales provide harmonised guidance on bullying and on fatigue. Only Queensland and Western Australia provide a code of practice on bullying. Western Australia and South Australia are the only jurisdictions to have a code

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of practice on working hours, while Western Australia is the only jurisdiction to have a code that addresses occupational violence. Victoria and New South Wales pursue bullying the most vigorously in the courts.

- Australian OHS regulators commonly use a cooperative, graduated approach to achieve compliance. They apply a risk-based approach to enforcement and generally seek to minimise adverse side effects on business.
- There are significant differences among OHS regulators in: their level of resources; funding sources; availability and application of enforcement tools; appeal mechanisms; and transparency.

### **Contribution of the Not-For-Profit Sector**

Research Report completed 29 January 2010, report released 11 February 2010.

The Commission's main findings and recommendations were that:

- The not-for-profit (NFP) sector is large and diverse, with around 600 000 organisations.
  - The ABS has identified 59 000 economically significant NFPs, contributing \$43 billion to Australia's GDP, and 8 per cent of employment in 2006-07.
  - The NFP sector has grown strongly with average annual growth of 7.7 per cent from 1999-2000 to 2006-07.
- 4.6 million volunteers work with NFPs with a wage equivalent value of \$15 billion.
  - More Australians are volunteering, but for fewer average hours, so total hours grew only slowly (2 per cent per annum over the seven years to 2006-07).
  - Most areas have seen a decline in volunteering, although there has been strong growth in volunteers with culture and recreation organisations.
- The level of understanding among the wider community of the sector's role and contribution is poor and deserves attention. A nationally agreed measurement and evaluation framework would add significantly to this understanding.
- Current information requirements imposed on NFPs for funding and evaluation purposes are poorly designed and unduly burdensome. Reform is needed to meet 'best practice' principles.
  - A significant advance would be to establish a Centre for Community Service Effectiveness to improve knowledge on good evaluation practice, and assemble and disseminate evaluations based on the agreed measurement framework.

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- The current regulatory framework for the sector is complex, lacks coherence, sufficient transparency, and is costly to NFPs.
    - A national registrar for NFPs should be established to consolidate Commonwealth regulation; register and endorse NFPs for concessional tax status; register cross jurisdictional fundraising organisations; and provide a single portal for corporate and financial reporting.
  - Legislative proposals to reduce reporting burdens associated with companies limited by guarantee are welcome and needed if more NFPs are to adopt Commonwealth incorporation.
    - A separate chapter in the Corporations Act dealing with NFP companies should be introduced, as should rules on the disposal of assets.
    - More generally, states and territories should seek to harmonise Incorporated Associations legislation in these and other key areas.
  - Jurisdictional and agency differences have also resulted in a lack of consistency and comparability in financial reporting requirements for NFPs. Australian governments should, as a priority, implement the agreed Standard Chart of Accounts.
  - Fundraising legislation differs significantly between jurisdictions, adding to costs incurred by the NFP sector. Harmonisation of fundraising legislation through the adoption of a model act should be an early priority for governments.
  - Enabling the public to provide greater support to a wider group of NFPs is desirable and would be facilitated if deductible gift recipient status were to be progressively extended to all charitable institutions and funds endorsed by the proposed registrar.
    - NFP revenue sources would also be expanded by the promotion and support of payroll giving arrangements.
  - There is potential for greater social innovation but the business planning capabilities and incentives for collaboration need to be strengthened. Further, there is a need to strengthen the capacity for NFPs to access debt financing for social investment.
  - NFPs and others delivering community services face increasing workforce pressures and long-term planning is required to address future workforce needs.
    - For NFPs, less than full cost funding of many services has resulted in substantial wage gaps for NFP staff. The challenges in retaining staff threaten the sustainability and quality of services. Greater clarity about funding commitment is an important step in addressing these issues.



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- Volunteers play a critical role in delivering NFP services but rising costs are affecting the viability of their engagement. Streamlining of mandatory vetting requirements and investigation of portability between agencies and across jurisdictions would reduce one source of costs.
  - The efficiency and effectiveness of delivery of services by NFPs on behalf of governments is adversely affected by inadequate contracting processes. These include overly prescriptive requirements, increased micro management, requirements to return surplus funds, and inappropriately short-term contracts. Substantial reform of the ways in which governments engage with and contract NFPs is urgently needed.
    - Australian governments should choose the most appropriate model of engagement, ensure consideration of all costs associated with use of the lead agency model, align the length of contracts with the period required to achieve agreed outcomes, review and streamline their contracting processes and ensure staff involved with NFPs have the required relationship management skills.
  - Some current approaches adopted by governments to the management of the different risks involved in the delivery of services on their behalf are not cost effective. An explicit risk management framework should be prepared by government agencies in collaboration with service providers as part of their contracting process.
  - Implementation of government and sector reforms will be best facilitated by a central policy and implementation unit within the Australian Government such as through the establishment of a specific Office for NFP Sector Engagement.

### *Government decision*

In April 2010, COAG agreed to the development of a nationally consistent approach to fundraising regulation, in line with recommendations made in the Commission's report (COAG 2010a).

## **Performance of Public and Private Hospital Systems**

Research Report completed 3 December 2009, report released 10 December 2009.

The Commission's main findings and recommendations were that:

- Although there is significant diversity within and between the public and private hospital sectors, there are sufficient similarities to warrant comparing them,

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ideally in a way that takes account of differences in the services provided and patients treated.

- Existing datasets on hospital costs are limited by inconsistent collection methods and missing information. The Commission has sought to address these limitations by drawing on various data sources and incorporating adjustments to make the data more comparable. Nevertheless, the resulting estimates should be considered experimental.
- The Commission's experimental cost estimates suggest that, at a national level, public and private hospitals have similar average costs. However, significant differences were found in the composition of costs. General hospital costs were higher in public hospitals. Medical and diagnostics costs and prostheses costs were higher in private hospitals. Capital costs were higher in public hospitals, but this result is particularly reliant on a range of data sources and adjustments to make the data comparable.
- Australia does not have a robust nationally-consistent data collection on hospital-acquired infections. The limited available evidence suggests that private hospitals have lower infection rates than public hospitals, but this result could be misleading because private hospitals on average treat patients who have a lower risk of infection.
- Other partial indicators show that:
  - private hospitals have higher labour productivity and shorter lengths of stay than public hospitals, but this is at least partly due to casemix and patient differences between the public and private sectors
  - elective surgery in public hospitals is more accessible for disadvantaged socioeconomic groups, but tends to be less timely than in the private sector.
- A multivariate analysis of hospital-level data suggests that the efficiency of public and private hospitals is, on average, similar. The output of individual hospitals in both sectors is, on average, estimated to be around 20 per cent below best practice.
- Improvements could be made to data collections to improve the feasibility of future comparisons. Foreshadowed changes under the National Healthcare Agreement will help in this regard, but more improvements could be made, such as consistent national reporting of costs and infections for both public and private hospitals.
- Only a small proportion of patients incur out-of-pocket expenses without receiving sufficient prior information to give informed financial consent. The medical profession has facilitated best practice by educating practitioners and using internet-based packages to inform consumers.

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- The most appropriate indexation factor for the Medicare Levy Surcharge income thresholds is average weekly ordinary time earnings.

A supplement to the Research Report was released on 18 May 2010. Key points from the supplement were that:

- The Commission recently completed a Research Report on the performance of public and private hospitals which compared costs, infection rates and other indicators (PC 2009). That report also considered rates of, and impediments to, informed financial consent; and assessed potential indexation factors for the Medicare Levy Surcharge income thresholds.
- A part of that study used multivariate techniques which estimated that hospital output was typically around 20 per cent below best practice. This was based on preliminary analysis of just a single year of data because of significant delays in accessing data.
  - The modelling in this supplement draws on three additional years of data, as well as improved data quality and estimation methods, and finds that hospitals are operating around 10 per cent below best practice. While this estimate is more reliable, it remains an estimate given the limitations to the data.
- In this supplement, the Commission has compared hospital performance in terms of:
  - hospital-standardised mortality ratios — as a measure of the effectiveness and ‘quality’ of hospital care
  - efficiency — measured by the extent to which hospitals made best use of their resources to provide services.
- Hospital-standardised mortality ratios were estimated to be generally similar between very large public and private hospitals. However, smaller private hospitals had noticeably better mortality ratios than similar-sized public hospitals.
  - While this might indicate differences in management and clinical competence, it could also indicate the tendency for smaller public hospitals to be the only major source of clinical care in remote and very remote areas.
- Australian acute hospitals were estimated to have scope to improve their efficiency by about 10 per cent under the existing policy environment.
  - For-profit and ‘public contract’ hospitals were estimated to be more efficient than public hospitals on average, in terms of their potential to increase output for a given set of inputs.

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- However, for-profit, not-for-profit and public hospitals were found to be similarly efficient with respect to their potential to economise on input use for a given level of output.
  - Smaller public hospitals, many of which are located in more remote communities, were found to be less efficient than similar-sized private hospitals, possibly due to lower occupancy rates.
  - The Commission also sought to measure the determinants of hospitals costs, but the available financial data, such as capital and medical costs, were inadequate.
  - There are various other shortcomings in data quality and availability. These would need to be overcome if policy analysts and other researchers are to produce improved estimates of efficient costs of providing hospital care.

## **Study into Mechanisms to Purchase Water Entitlements**

Research Report completed 18 March 2010, report released 31 March 2010.

The Commission's main findings and recommendations were that:

- The Australian Government has an ambitious agenda for increasing the availability of water for the environment in the Murray-Darling Basin: water will be reallocated administratively through a Basin Plan; and water will be recovered through a ten-year \$3.1 billion buyback of water entitlements, and a \$5.8 billion investment in water saving infrastructure.
- The 2011 Basin Plan will ultimately allocate water between consumptive and environmental uses, in each catchment. The buyback aims to assist irrigators to adjust to the much lower diversion limits that are likely under the Basin Plan and to regain some water for the environment in the interim. The infrastructure program shares these broad objectives but also aims to help sustain irrigation communities.
- The buyback is occurring before sustainable diversion limits (SDLs) are set under the Basin Plan, and before the liability for policy-induced changes to water availability has been resolved. This is creating uncertainty in the minds of irrigators and affecting the efficiency of the buyback.
- SDLs must be based on scientific assessments of the amount of water that is required to avoid compromising key environmental assets and processes. Good science is a necessary but not sufficient basis for optimising the use of the Basin's water resources. The value people place on environmental outcomes, the opportunity cost of forgone irrigation, and the role of other inputs, such as land management, must also be considered. If the *Water Act 2007* (Cwlth) precludes this approach, it should be amended.

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- The same cost effectiveness tests should be applied to all water recovery options. Purchasing water from willing sellers (at appropriate prices) is a cost-effective way of meeting the Government's liability for policy-induced changes in water availability. Subsidising infrastructure is rarely cost effective in obtaining water for the environment, nor is it likely to be the best way of sustaining irrigation communities.
  - Other water products (for example, seasonal allocations and options contracts) are potentially valuable in meeting short-term environmental needs.
  - Tenders are sound purchasing mechanisms where active markets for water entitlements do not exist. But where active markets do exist, acquiring water directly from those markets is likely to be more efficient.
  - The 4 per cent limit on out-of-area trade of water entitlements should be eliminated as soon as possible. Limits on the amount of entitlements that can be sold to the Commonwealth through the buyback should also be eliminated.
  - Using the buyback to achieve distributional goals, system rationalisation or to manage salinity is likely to compromise its efficiency and effectiveness. Other more direct instruments should be used to address these issues.
  - Governance arrangements for the recovery and management of water for the environment are fragmented. Greater coordination of water recovery and environmental watering by Basin jurisdictions is required.

## **Annual Review of Regulatory Burdens on Business – Business and Consumer Services**

Research Report completed 31 August 2010, report released 12 October 2010.

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 the regulatory burdens on businesses in Australia's primary sector.

The fourth yearly review reported on regulatory burdens in the business and consumer service industries. In broad terms, this includes financial and insurance services, accommodation and food services, hiring, real estate, professional and personal services, arts and recreation, and repair and maintenance services the business and consumer services area. The Commission's main findings and recommendations were:

- Despite long established (and reviewed) consultation processes used in developing regulations, industry still finds these processes lacking in several

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respects. Finance and property industry groups consider the most significant regulatory failings are a lack of transparency and continuity in consultation processes, short consultation timeframes and a lack of credible evidence in the current regulation-making process.

- These failings of regulatory process are of particular concern given the significant and wide reaching regulatory reforms of the finance sector currently being developed internationally in response to the Global Financial Crisis. It is important that any domestic reform proposals are subject to transparent and rigorous processes that take into account all of the impacts on the finance sector and local conditions.
- To improve the transparency and accountability of its consultation processes the Australian Government should:
  - incorporate a ‘consultation’ Regulation Impact Statement in the regulation-making process
  - require the Office of Best Practice Regulation to extend its monitoring and reporting role to the quality of consultation
  - use confidential consultation processes only in limited circumstances where transparency would clearly compromise the public interest.
- A number of regulations and associated administrative processes affecting the superannuation industry should be revised to reduce the regulatory burdens on business, including:
  - allowing non-lapsing binding death nominations
  - giving departing temporary residents the ability to submit their applications to superannuation funds for payments before the time of their departure, rather than after they have left Australia
  - standardising the instructions to superannuation trustees made on the dissolution of marriage
  - requiring superannuation fund members to make a specific request to receive transaction confirmation letters.
- There is duplication, overlap and inconsistency in the regulation of certain occupations. Regulatory burdens should be reduced by:
  - implementing a national register for architects so that payment of a single registration fee in any jurisdiction would automatically enable an architect to practice in all Australian jurisdictions
  - ending the ‘dual regulation’ of lawyers that practice in the area of migration law, by exempting those with a current legal practising certificate from the regulatory requirements of the Migration Agents Registration Scheme

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- harmonising personal and corporate insolvency laws — a reform taskforce should be established to identify provisions and processes that could be aligned and the case for a single regulator should also be examined
  - developing uniform real property laws for adoption in all Australian jurisdictions — this could be overseen by COAG’s Business Regulation and Competition Working Group.
  - Unnecessary regulatory burdens in the hospitality and tourism sector should be addressed by:
    - indexing the monetary threshold at which proposed foreign investment in developed non-residential commercial property, including hotels, is subject to Foreign Investment Review Board (FIRB) assessment — similar to the thresholds applying to other types of foreign investment
    - removing the lower monetary threshold relating to FIRB assessment of the purchase of heritage listed developed non-residential commercial properties by foreign interests
    - providing mutual recognition across state borders of responsible service of alcohol training
    - removing inconsistencies between the Environmental Protection and Biodiversity Conservation Act and the regulations relating to the importation of endangered species
    - exempting Sunday and public holiday menu surcharges from the amendments to the Trade Practices Act dealing with component pricing.
  - The earnings threshold for the superannuation guarantee continues to be an issue for business, in particular small business. The monthly earnings threshold attached to the superannuation guarantee should be increased and subject to indexation.

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

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

Research Report completed 9 April 2009, report released 30 April 2009.

On 2 November 2009, the Government announced that it will establish a National Offshore Petroleum, Minerals and Greenhouse Gas Storage Regulator, to be operational by 1 January 2012. The new regulatory agency will operate on a full cost recovery basis, with the establishment costs being fully funded by industry fees

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levied between 1 July 2010 and 31 December 2011. In announcing establishment, the Government stated:

This decision has been taken in response to the Productivity Commission report... which was released on 30 April 2009. (Swan 2009b)

### **Restrictions on the Parallel Importation of Books**

Research Report completed 30 June 2009, report released 14 July 2009.

In responding to the report on 11 November 2009, the Government announced that it did not accept the Commission's recommendation to remove the parallel importation restrictions on books, and that it did not intend to change the Australian regulatory regime for books (Emerson 2009a).

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

Inquiry Report No. 46 signed 27 February 2009, report released 12 May 2009.

On 28 June 2010, the Australian Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011 (Burke 2010a). The pilot reform measures draw partly on a number of recommendations made in the Commission's report, in particular regarding interest rate subsidies and farm exit support.



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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 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 2009-10, as well as briefings to international visitors.

### **Submissions**

#### **Submission to the Senate Select Committee on the National Broadband Network**

*July 2009*

In its submission, the Commission took as its starting point the decision by the Government to proceed with a rollout of fibre to the premises (FTTP). The submission was designed to assist the Committee in its examination of issues still at that time open to consideration, such as timing, sequencing, financing and regulation.

As the Commission had not been tasked to undertake work in the telecommunications area for some time, the submission was of a general nature, providing some 'best practice' policy and regulatory principles to assist the Committee. Based on the Commission's work, the submission examined:

- the potential benefits from fast broadband
- cost-benefit analysis
- the financing of infrastructure
- pricing and access to infrastructure.

On potential benefits from fast broadband, the submission observed that an efficient, well regulated and widely accessible National Broadband Network (NBN)

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might be expected to facilitate further direct productivity benefits, enabling a greater volume of information and data to be transmitted over a specified time. An equally important message emerging from a variety of Commission work is that the scope for Australia to reap the benefits potentially on offer from the NBN and other information and communications technology (ICT) innovations, such as higher capacity wireless connectivity, will depend critically on strong competition among users to drive the search for profitable applications, and on a supportive, flexible and responsive policy and regulatory environment. Hence, policies or regulations that unnecessarily inflate the costs of using new ICTs, or that limit competition among potential users, will reduce or at least delay uptake and the associated benefits. So too will prescriptive or otherwise inefficient regulations that limit the ways in which ICTs can be provided.

On cost benefit analysis, it was observed that the proposed implementation study provided an ideal opportunity to undertake a thorough cost-benefit analysis, gathering the appropriate evidence to ensure the project best meets the nation's interest. In this context, evidence needed to be gathered from the perspective of the welfare of the wider community, and not just the interests of particular sectors. Much of this evidence could be analysed within a cost-benefit framework. This is an important tool in ensuring that governments make the best use of limited resources; it explicitly recognises the opportunity cost of investment. However, it is principally about determining the efficiency of various investment alternatives. The equity implications of the alternatives should also be considered separately to inform the final decision.

As the project does carry undiversifiable risks, the submission observed that the expected value of future benefits is positively correlated with the future state of the economy, and the project's implementation options should therefore be evaluated at a discount rate that incorporated an element to compensate for this risk, just as a private project would.

The submission concluded that, while the Productivity Commission has not undertaken any recent work in this area, earlier related research suggests a number of approaches which could potentially reduce the risks and costs of the NBN. In particular, the application of a thorough cost-benefit analysis would aid the implementation study during its detailed work, including its application to a pilot project in Tasmania. This submission also underlines the significance of issues to do with the structure of financing, appropriate pricing and access regulation and community service obligations, in determining overall outcomes from the NBN.

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## **Submission to the House of Representatives Standing Committee on Economics: Inquiry into Raising the Level of Productivity Growth in Australia**

*September 2009*

The Commission's submission addressed a range of core issues, including the meaning and importance of productivity, how Australia's productivity has performed over time, and policies for improving our productivity performance into the future.

Key points of the submission were:

- Australia's rate of productivity growth will be a major determinant of future income growth, and of how well the country recovers from the global financial crisis and meets longer term challenges such as population ageing and climate change.
- The determinants of productivity growth operate at two broad levels:
  - immediate causes which, at the individual firm level, include innovation, the adoption or adaptation of technological and organisational advances and the achievement of economies of scale and scope
  - underlying drivers such as competition policy and an open economy, and more fundamental institutional arrangements.
- Over the past four decades, Australia's market sector multifactor productivity (MFP) growth has averaged 1.1 per cent per year. This places us in about the middle of the OECD rankings over the long term.
- Concerns about declining productivity growth and per capita income growth in the early 1980s gave impetus to the significant economic reforms which were implemented from the mid-1980s.
  - Subsequently, during the 1993-94 to 1998-99 productivity cycle, average annual MFP growth surged to 2.3 per cent. Australia's productivity performance rose to second among key OECD countries at this time.
- The fact that MFP growth has declined since 1998-99 is not unexpected, but the extent of the decline is, especially since 2003-04.
- Commission analysis suggests that 70 per cent of the recent rapid decline since the cycle ending in 2003-04 is accounted for by specific developments in three sectors:

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- Mining, with declining resource quality and large capital investment that has not yet translated into output; Electricity, gas & water, with capital investment and reduced rainfall; and Agriculture, with the drought.
  - Though important in the long run, factors which are unlikely to have played an immediate and direct role in the recent decline are expenditure on infrastructure, education and training, or R&D.
  - To raise the rate of productivity growth, a broad-based reform program is required which:
    - removes impediments to the efficient allocation of resources across the economy
    - heightens the incentives for firms to perform, while helping to enhance their organisational flexibility and capability.
  - The National Reform Agenda provides an appropriate framework. While recognising the constrained fiscal environment in the short term, policy settings should be based on a commitment to an open and competitive economy, ongoing regulatory reform and efficient investment in human and physical capital.

## 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.*

### Modelling the Effects of the EU Common Agricultural Policy

*Catherine Costa, Michelle Osborne, Xiao-guang Zhang, Pierre Boulanger and Patrick Jomini, December 2009*

This report was part of a project that was conducted in collaboration between the Productivity Commission and the Groupe d'Economie Mondiale (GEM), where Patrick Jomini from the Productivity Commission was on secondment, and coauthor Pierre Boulanger is a research and teaching fellow.

Key points were:

- The Common Agricultural Policy (CAP) of the European Union has undergone significant reform since the early 1990s, with the aim of improving its market orientation.
  - There is an increasing focus on breaking the link between direct income payments and production decisions — so called ‘decoupling’.

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- Expenditure on the CAP accounts for about 46 per cent of total EU budgetary expenditure, or over 50 billion Euros.
    - The majority of expenditure is in the form of direct income payments to farmers. Expenditure also includes market price support and rural development programs.
  - The European Union also assists its agricultural sector with various border protection measures including import duties and other non-tariff barriers.
  - In this study, economic impacts of the CAP are evaluated using the GTAP model. According to the modelling results, the effects of the CAP include:
    - higher output of the farm and food processing sectors in the European Union, of about 8 and 6 per cent respectively
    - lower output of the EU manufacturing and services sectors
    - lower GDP in the European Union of about 0.3 per cent, or \$US 52 billion.
  - The additional farm and food output in the European Union is estimated to depress world prices for these goods by between 1 and 4 per cent. World prices for manufactured goods and services increase. These price movements induce a contraction in agriculture and food processing in non-EU regions, and an expansion in the manufacturing and services sectors.
    - Some of the largest contractions occur in the livestock sectors in Latin America (12.7 per cent) and Australia–New Zealand (4.9 per cent) and in the food processing sectors in most regions.
  - The estimated net effect of the CAP is to reduce global welfare by about \$US 45 billion, with a cost to the European Union of \$US 30 billion. The largest contributor to this welfare loss is the border protection component of the CAP.
  - Important caveats to these modelling results apply. The estimates are sensitive to parameter choices, specific model features, and the structure of the database. In addition, the modelling does not capture some aspects of the CAP including the effects of cross-compliance measures, any impacts on productivity in the agricultural sector, and positive and negative externalities associated with the policy. Therefore, these results should be interpreted as only indicative of the magnitude of the economic impacts of the CAP.

## **The Effects of Education and Health on Wages and Productivity**

*Matthew Forbes, Andrew Barker and Stewart Turner, March 2010*

In this paper, a human capital earnings function and data from the Household, Income and Labour Dynamics in Australia (HILDA) survey were used to estimate

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the effects of education and health status on wages, which can be used as an indicator of labour productivity.

Key points of the paper were:

- Human capital theory supports the view that people with higher levels of education and lower incidences of chronic illness should have higher labour productivity.
- Hourly wages can be used as an indicator of labour productivity. While wages are likely to be a reasonable indicator of the effects of education on labour productivity, statistical issues and the way that labour markets function in practice mean that using wages as an indicator could lead to results that under- or overstate the negative effects of ill health on labour productivity.
- In this paper, higher levels of education are estimated to be associated with significantly higher wages. Compared to a person with a year 11 education or less, on average:
  - a man with a year 12 education earns around 13 per cent more, and a woman earns around 10 per cent more
  - a man with a diploma or certificate earns around 14 per cent more, and a woman earns around 11 per cent more
  - a university education adds around 40 per cent to men's and women's earnings.
- People in the workforce who suffer from chronic illnesses are estimated to earn slightly less than their healthy counterparts (between 1.0 per cent and 5.4 per cent less for a range of conditions).
  - It is possible that these results understate the impact of ill health on productivity, because of the impact that one person's illness can have on other employees.
  - It is also possible that 'endogeneity bias' and unobserved heterogeneity in the data lead to results that overstate the positive effects of education and good health on labour productivity.
- A second objective of this paper is to estimate the potential productivity of people who are not employed or not in the labour force. These people tend to have characteristics that are systematically different to people who are employed. For example, they tend to have less education and work experience, and also to be in worse health. Because of this, they are more likely to be targeted by government programs.
  - Comparison of the characteristics of people in employment with those not in employment found that, depending on their age, gender and whether they

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receive the Disability Support Pension, the average potential wage of people who are not employed or not in the labour force is between 65 and 75 per cent of the wage of people who are employed.

## **Developing a Partial Equilibrium Model of an Urban Water System**

*Andrew Barker, Tim Murray and John Salerian, March 2010.*

Urban water and its management have been the subject of much public debate. The timing and choice of investments to augment water supply, different approaches to water pricing, and the tools of demand management have all been the subject of discussion. Outlined in this paper is a model that can be used to quantify the costs and benefits of policy options to improve outcomes in urban water systems. An earlier version of the paper was presented at the Australian Conference of Economists on 30 September 2009, and was awarded the prize for best contributed paper.

Key points of the paper were:

- A partial equilibrium model of an urban water system is employed to investigate capacity augmentation decisions, pricing policies and the use of water restrictions in the urban water sector.
- The modelling is based on the solution to a constrained optimisation problem, with the objective to maximise community welfare in the urban water market. The model allows for intertemporal representation of demand and supply; variation in annual inflows to dams; various supply options; and scope to apply policy constraints.
- The model abstracts from the transaction costs of different policies, institutional settings and incentives. Such considerations could in practice have a significant bearing on outcomes and optimal policies.
- To illustrate its use, the model is applied to a hypothetical city, which synthesizes features of Australian capital cities. The results therefore are illustrative only, and cannot be used as a template for assessing actual investment and policies.
  - Several possible new supply sources are considered: desalination; groundwater aquifers; household tanks; new dams; and rural–urban trade.
- The model reinforces the importance of rainfall variability and of making investment decisions regarding new supply sources based on expected returns to investment.

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- Actual payoffs to investment depend on future inflows to dams, as prices respond to demand, supply and storages. If future rainfall is plentiful (scarce), returns to investment are likely to be low (high).
  - Guaranteed investment returns lead to inefficient investment and consumption.
  - The amount of water drawn from new investments should be flexible and respond to rainfall patterns (via their impact on water prices).
  - Pricing based on the relative scarcity of water was the optimised ‘base case’ against which a range of illustrative policy applications were evaluated.
    - Constraining prices (including through long-run marginal cost pricing) was found in the model to impose costs on the community. Constrained prices are also likely to require restrictions to ration water during times of scarcity because prices are not able to perform a ‘rationing’ function.
    - The modelling shows large economic costs from imposing water restrictions, which prevent uses of water that consumers would have been willing to pay for. These costs rise as demand becomes less responsive to price or if inflows to dams become lower in the future.
    - A key feature of scarcity-based pricing is the variability in the price of water over time, depending on rainfall. On average, however, prices are lower under scarcity-based pricing than under the other policy options modelled.
    - Model results also indicate potentially high costs from ruling out access to particular sources of water (for example, relatively low-cost rural–urban trade using pipelines), or from pursuing supply options that are not least cost.
  - Potential further work using this modelling framework could include its application to specific urban settings.



**Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2009-10**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks, Chairman:</b>		
Reconciliation Australia, Closing the Gap Lecture, Canberra	Launch of Commission's <i>Overcoming Indigenous Disadvantage</i> Report 2009	July 2009
ANU College of Asia and the Pacific, Canberra	Governing through the recession	Aug 2009
ABARE Leadership Forum, Canberra	Evidence-based policy making	Aug 2009
ANZSOG Annual Conference, Canberra	Sustaining evidence-based policy in a crisis	Sept 2009
CEDA Forum, Melbourne	Executive remuneration in Australia	Oct 2009
Economics Society Seminar, Canberra	Executive pay: economic issues from the Commission's report	Oct 2009
Guerdon Associates Breakfast forum, Melbourne	Executive remuneration in Australia	Oct 2009
Economic and Social Outlook Conference 2009, Melbourne	Restoring Australia's productivity growth	Nov 2009
Governing the Economy Symposium, Whitlam Institute, Sydney	Markets: how free?	Nov 2009
Melbourne Business School Policy Course, Melbourne	Leading Policy Reform: industry policy and regulation	March 2010
Official Statistics Forum 2010, Wellington, New Zealand	Statistics, Productivity and Structural Reform	March 2010
Ian Little Lecture, Melbourne	Advancing the Human Capital Agenda	April 2010
Talking Heads, Department of Broadband, Communications and the Digital Economy, Canberra	Evidence-based policy making: challenges and rewards	May 2010
COAG Road Reform Plan Workshop, Hobart (with Lisa Gropp)	Setting the scene for road reform	June 2010
CEDA State of the Nation, Canberra	Australia's productivity agenda	June 2010

(continued on next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Commissioners:</b>		
CEDA National Innovation Forum, Sydney, (Mike Woods)	Innovation — Key driver for sustainable economic growth	July 2009
University of Queensland Business School Executive Education Course, Brisbane (Robert Fitzgerald)	Leadership for the Not for Profit Sector and the findings of Commission's study into the Contribution of the Not for Profit Sector	July 2009
Benevolent Society CEO's forum, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	July 2009
CEDA Age Care Forum, Melbourne (Mike Woods)	Changing trends in the aged care industry and challenges posed by increasing demand and growing diversity	Aug 2009
CSA Annual Public Sector Update, Melbourne (Mike Woods)	Government Trading Enterprises — a stable model of governance?	Aug 2009
NSW Business Chamber, Sydney (Angela MacRae)	Reducing burdens on business — Commonwealth track record	Sept 2009
Australian Institute of Company Directors, Melbourne (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Oct 2009
ACSA of NSW & ACT Annual General Meeting, Sydney (Mike Woods)	Commission's research on Ageing	Oct 2009
Australian Society of Association Executives Symposium, Melbourne (Robert Fitzgerald)	Commission's study into the Not for Profit Sector	Oct 2009
Asia Oceania Soap & Detergent Associations Conference and ACCORD National Conference, Melbourne (Mike Woods)	Insights into the Commission's reports on Chemicals & Plastics regulation and Anti-dumping	Oct 2009
Mercer Luncheon , Sydney (Robert Fitzgerald)	Commission's report on executive remuneration	Oct 2009
Financial Institutions Remuneration Group Conference, Sydney (Robert Fitzgerald)	Commission's report on executive remuneration	Oct 2009
KPMG Remuneration Reform Conference, Sydney (Robert Fitzgerald)	Commission's report on executive remuneration	Oct 2009
3 <sup>rd</sup> Annual Permit and Project Approval Conference, Tonkin Corporation, Perth (Philip Weickhardt)	Commission's report on the Review of Regulatory Burdens on the Upstream petroleum (Oil and Gas) Sector	Oct 2009

St Vincent De Paul Society Managers' Conference, Bowral (Robert Fitzgerald)	Challenges for Charities Today — discussion on the findings of the Commission's study into the Contribution of the Not for Profit Sector	Oct 2009
National Heads of Churches in Australia, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Nov 2009
Australian Communications Consumer Action Network Seminar, Sydney (Robert Fitzgerald)	Responsive regulation and policy	Nov 2009
Economic and Social Outlook Conference 2009, Melbourne (Judith Sloan)	Fair work Australia, jobs and productivity	Nov 2009
Economic and Social Outlook Conference 2009, Melbourne (Mike Woods)	The future of the bush: the outlook for regional Australia	Nov 2009
Economic and Social Outlook Conference 2009, Melbourne (Robert Fitzgerald)	Closing the Gap for Indigenous Australians	Nov 2009
ACOSS future of the Sector Day, Sydney (Dennis Trewin)	Commission's draft report into the Not for Profit Sector	Nov 2009
Australian Hospitals and Healthcare Association, Sydney (David Kalisch)	Structural challenges arising from Australia's mixed public-private healthcare system	Nov 2009
ANU, Canberra (David Kalisch)	Discussion on Health Services	Nov 2009
ANU Health Reform Series, Canberra (Mike Woods)	Discussion on the health workforce, access to primary health care services, governance and funding	Nov 2009
VCOSS meeting of CEO's and Presidents of Victorian community sector, Melbourne (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Nov 2009
Family Relationship Services Australia Conference, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Nov 2009
Catholic Healthcare Limited, Mission Twilight, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Nov 2009
ACSA of NSW & ACT 2009 Northern Regional Conference, Coffs Harbour (Mike Woods)	Visions with Action	Nov 2009
Horse Racing and Sports Betting Forum, Informa Australia, Sydney (Louise Sylvan)	Commission's Inquiry into Gambling	Dec 2009

(continued on next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
NZICA Public Sector Conference, (by video stream) (Mike Woods)	Driving change in public sector financial management — Private Sector Perspective	Dec 2009
Anglicare Australia Community Sector Industry Issues Forum, Canberra (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Feb 2010
National Compact Sector Advisory Group, Canberra (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Feb 2010
Australian Centre for Corporate Social Responsibility Conference, Melbourne (Louise Sylvan)	Markets, Regulation and Responsive Business Practice	Feb 2010
South Australian Anglicare Future of the Third Sector Conference, Adelaide (Robert Fitzgerald)	Discussion of the Not for Profit Sector and the Commission's study into the Contribution of the Not for Profit Sector	Feb 2010
Aged & Community Services Association of SA & NT Inc Finance Forum, Adelaide (Angela MacRae)	Managing Change in Aged Care — Regulatory Burdens on Business	Feb 2010
House with No Steps Board, Sydney (Robert Fitzgerald)	Discussion of the Not for Profit Sector and the Commission's study into the Contribution of the Not for Profit Sector	March 2010
2010 Samaritans Business Breakfast , Newcastle (Robert Fitzgerald)	Commission's study into the Not for Profit Sector	March 2010
CHOICE National Consumer Congress, Sydney (Robert Fitzgerald)	Getting Policy Development Right	March 2010
ACWA Board Meeting, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	March 2010
NSW Australian Society of Association Executives, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	March 2010
FRSA Senior Executives Forum, Canberra (Robert Fitzgerald)	Proven, Possible, Probable: Shaping the Future of Australian Family Services	March 2010
Launch of Community Southwest's — Collaboration — Doing it Better 2020 Conference, Warnambool (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	March 2010
Marrickville Council presentation, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	March 2010
KPMG, Melbourne (David Kalisch)	Hospital performance	April 2010

Public Health Association Conference on Food Future, Canberra (David Kalisch)	The impact of food regulation	April 2010
QLD Mental Health Alliance, Brisbane (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	April 2010
Graduate School of Government Guest Speaker Program, Sydney (Robert Fitzgerald)	Policy in Practice: Delivering Public Value – how should we evaluate policy outcomes?	April 2010
2010 Family Violence Prevention Legal Service National Conference, Perth (Robert Fitzgerald)	Overcoming Indigenous Disadvantage	May 2010
WA Department of Indigenous Affairs Lunchtime Forum, Perth (Robert Fitzgerald)	Overcoming Indigenous Disadvantage	May 2010
CPA Australian 2010 Not for Profit Conference, Brisbane (Robert Fitzgerald)	A new not-for-profit era — where to from here? Commission's study into the Contribution of the Not for Profit Sector	May 2010
CPA Australian 2010 Not for Profit Conference, Sydney (Robert Fitzgerald)	A new not-for-profit era — where to from here? Commission's study into the Contribution of the Not for Profit Sector	May 2010
CPA Australian 2010 Not for Profit Conference, Melbourne (Robert Fitzgerald)	A new not-for-profit era — where to from here? Commission's study into the Contribution of the Not for Profit Sector	May 2010
Australian College of Health Service Executives Conference, Sydney (David Kalisch)	Comparative hospital performance	May 2010
Cooperative Research Centre Association Annual Conference, Alice Springs (David Kalisch)	Evidence or anecdote: which has the most influence?	May 2010
ACSA National Community Care Conference and Trade Exhibition, Gold Coast (Mike Woods)	Reforming Aged Care: contributing to the Commission's inquiry	June 2010
Australasian Reporting Awards Annual Seminar, Sydney (Robert Fitzgerald)	Impressions matter but Impacts matter more — what stakeholders really value.	June 2010
Australian Red Cross — Emerging Executives Development Program, Melbourne (Robert Fitzgerald)	Future of challenges of not for profit	June 2010
ACE Disability Employment Services Conference, Hobart	Commission's study into the Contribution of the Not for Profit Sector	June 2010
National Quality Council, Melbourne (Mike Woods)	Education and Training Workforce: Vocational Education and Training Issues paper	June 2010

(continued on next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
ASAC Victoria Congress, Melbourne (Robert Fitzgerald)	Aged care at the crossroads	June 2010
Treasury Planning Day, Canberra (Angela MacRae)	Work/life balance — the big and small picture	June 2010
<b>Staff:</b>		
ACT Treasury Seminar Series, Canberra (Troy Podbury)	Part time employment: the Australian experience	July 2009
NSW Office of Women's Policy — Women's Network Peak Forum, Sydney (Jenny Gordon)	Commission's study into the Contribution of the Not for Profit Sector	July 2009
Catholic Health Australia Conference on Indigenous Health, Hobart (Peter Daniel)	Overcoming Indigenous Disadvantage: key indicators 2009	Aug 2009
ABS Statistical Leadership Seminar, Canberra (Terry O'Brien)	Strengthening Evidence-based Policy in the Australian Federation	Aug 2009
Criterion Conference on Linking Policy with Service Delivery in Indigenous Communities, Cairns (Lawrence McDonald)	Overcoming Indigenous Disadvantage: key indicators 2009	Aug 2009
Evidence and Evaluation Conference, Canberra (Terry O'Brien)	Strengthening evidence-based policy: some helpful principles and institutional arrangements	Sept 2009
Australian Conference of Economists, Adelaide (Andrew Barker)	Developing a partial equilibrium model of an urban water system	Sept 2009
Australian Conference of Economists, Adelaide (Anthony Shomos))	The links between literacy and numeracy skills and labour market outcomes	Sept 2009
Justice Colloquium — Behavioural Economics and Public Policy, Melbourne (Paul Belin & Stewart Turner)	Can behavioural economics help policy makers achieve given policy goals more effectively and be used to support particular policy goals	Oct 2009
Attorney-Generals' Aboriginal and Torres Strait Islander Legal Services Conference, Canberra (Tina Takagaki)	Overcoming Indigenous Disadvantage: key indicators 2009	Oct 2009
Criterion Conference on Evidence-based policy making 2009: laying the foundations for innovative and sustainable policy, Canberra (Terry O'Brien)	Helping evidence inform policy: the need for eclectic approaches	Oct 2009
LaTrobe University Seminar on Improving Australia's Gambling Policies, Melbourne (Ralph Lattimore)	Commission's inquiry into Gambling	Nov 2009

Research School of Humanities & the Arts — Trade and Investment Issues for the 21 <sup>st</sup> Century: Building an Agenda for Australia, Canberra (Patrick Laplagne)	Australian/Trans-Tasman mutual recognition framework: characteristics and comparison with the EU	Nov 2009
Economic Measurement Group Workshop 2009, Sydney (Don Brunker)	Some measurement (& interpretation) questions and Australia's productivity performance	Dec 2009
Koori Business Network, Melbourne (Tina Takagaki & Peter Daniel)	Overcoming Indigenous Disadvantage: key indicators 2009	Dec 2009
Tasmanian Department of Premier and Cabinet Bilateral Indigenous Consultation meeting, Hobart (Peter Daniel)	Strategies and trajectories for addressing Indigenous disadvantages	Feb 2010
IPAA National Roundtable Event, Adelaide (Lawrence McDonald)	Indigenous issues: are we setting sustainable future?	March 2010
ACOSS National Conference, Canberra (Jenny Gordon)	Commission's study into the Contribution of the Not for Profit Sector	March 2010
The Australian Institute of Aboriginal and Torres Strait Islander Studies, Canberra (Tina Takagaki)	Overcoming Indigenous disadvantage and improving Indigenous wellbeing – different approaches with a similar goal?	April 2010
Community Sector Banking not-for-profit information night, Canberra (Jenny Gordon)	Commission's study into the Contribution of the Not for Profit Sector	April 2010
CEDA Boosting productivity – key to economic recovery and growth, Sydney (Don Brunker)	Selected aspects of Australia's multifactor productivity performance	April 2010
DFAT Trade Policy Course, Canberra (Owen Gabbitas)	Trade liberalisation: the Australian experience	April 2010
Early Childhood Data Sub Group, Melbourne (Lou Will)	Commission's study into Education and Training Workforce	May 2010
Melbourne University Masters Course — Not for profit organisations: current regulatory and governance issues, Melbourne (Jenny Gordon)	Commission's study into the Contribution of the Not for Profit Sector	June 2010
International Input-Output Conference, Sydney (Paul Gretton)	Use of input-output tables in assessing national economic reform – Australian Productivity Commission experience	June 2010
Australian Agricultural and Resource Economics Society, Victorian Division monthly seminar series, Melbourne (Paul Belin & Rick Baker)	Recovering environmental water in the Murray-Darling Basin	June 2010

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**Table E.2 International delegations and visitors, 2009-10**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
NZ Department of Building and Housing	Social housing performance indicators	July 09 (M)
Australian Ambassador to the OECD	Discuss mid-year consultations	July 09 (C)
Iraqi delegation	The Commission's role and activities	Aug 09 (C)
NZ Treasury	Discussion of New Zealand Productivity Commission	Aug 09 (M)
Officials from Indonesia, the Philippines, Thailand, Vietnam, Papua New Guinea and representatives from ASEAN	The Commission's role and activities; trade liberalisation and structural reform in Australian.	Sept 09 (M)
China-Europe Public Administration Project (CEPA II)	The Commission's role and activities; microeconomic reform, its contributions and history in Australia	Sept 09 (C)
China Australia Governance Program working visit	Discuss economic and quantitative analysis; national competition policy; population ageing; economics impact of climate change; agriculture, rural incomes; energy and resources	Sep 09 (C)
Papua New Guinea National Research Institute Study Tour Group	The Commission's role and activities	Sept 09 (M)
US Embassy Canberra	Social infrastructure	Oct 09 (M)
Philippines delegation	The Commission's role and activities; infrastructure and international perspectives on infrastructure financing	Oct 09 (C)
Saudi delegation	Issues relevant to the recently established Performance Measurement Centre of Government Agencies	Nov 09 (M)
Canadian High Commission	Discuss red tape reduction; performance management and public sector governance	Nov 09 (C)
Indonesian delegation	The Commission's role and activities	Nov 09 (C)
OECD delegation	Discuss infrastructure	Nov 09 (C)
OECD Mission	The Commission's role and activities	Dec 09 (C)
Maria Barrados (President of the Canadian Public Service Commission) and Daphne Meredith (Chief Human Resource Officer, Treasury Board of Canada)	Public Service Reform in Australia and the role of Human Resource management in those reforms	Dec 09 (C)



China Ministry of Finance delegation	Methods of promoting national productivity; economic reforms; government financial assistance on promoting industry; productively or Commonwealth Grants used for fostering productivity	Dec 09 (C)
Cambodian delegation	The Commission's experience: establishment of a regulatory system in Cambodia	Feb 10 (C)
Canada-Australia Public Policy Initiative	Community partnerships; economic recovery and social policy/social innovation	Feb 10 (M)
His Excellency Mr Jose Luis Balmaceda (Chilean Ambassador to Australia) and Jovino Nova (President of the Senator of Chile)	Productivity and the regulations that govern productivity growth	Feb 10 (C)
Dr Frederico Sturzenegger (President of the Banco de la Ciuda) and Marissa Bandharangshi	Special visits program	Feb 10 (M)
International Media Visit — Pakistani Journalists	'Off the record discussion' on microeconomic reform; COAG Reform Agenda and various regulation benchmarking tasks	Feb 10 (C)
Profess Katsuhiko Shijo	Trans-Tasman Mutual Recognition	Mar 10 (C/M)
Abu Dhabi Department of Economic Development delegation	The Commission's role and activities; economic modelling in the Commission; how economic modelling assists in achieving the Commission's objectives	Mar 10 (C)
Her Excellency Madame Khemmani Pholsena (Vice Minister of Industry and Commerce, Laos People's Democratic Republic)	The Commission's role and activities	Mar 10 (M)
George Anderson, President (Forum of Federations, Canada)	Discuss fiscal federalism in Australia	Mar 10 (M)
Dr Simon Kennedy, Deputy Secretary (Privy Council Office, Government of Canada) and Robert Coleman, Counsellor (Commercial)	The Commission's role and activities	April 10 (M)
Dr Ekniti, Spokesman, Thai Ministry of Finance and Executive Director of the Ministry's Macro-Economic Policy Bureau	Strategies used by the Commission to inform policy makers on the motivators of economic reform	April 10 (C)
China-Australia Governance Program – China Central Party School Delegation	The Commission's role and activities; intergovernmental financial relations and governance structures	June 10 (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 2009-10. 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.

- *Australia's Anti-dumping and Countervailing System*, Draft Research Report, 10 September 2009
- *Executive Remuneration in Australia*, Discussion Draft, 30 September 2009
- *Public and Private Hospitals*, Discussion Draft, 15 October 2009
- *Gambling*, Draft Inquiry Report, 21 October 2009
- *Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety*, Draft Research Report, 4 November 2009
- *Market Mechanisms for Recovering Water in the Murray-Darling Basin*, Draft Research Report, 9 December 2009
- *Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety*, Draft Research Report, 27 January 2010
- *Wheat Export Marketing Arrangements*, Draft Inquiry Report, 22 March 2010
- *Annual Review of Regulatory Burdens on Business —Business and Consumer Services*, Draft Research Report, 29 June 2010

- 
- *Contribution of the Not-for-Profit Sector*, Draft Research Report, 14 October 2010.

## **Inquiries and commissioned studies — final reports**

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/JS McMillan and the Commission's website. The dates listed are signing dates. Publications marked with an asterisk (\*) are yet to be released.

- *Restrictions on the Parallel Importation of Books*, Research Report, 14 July 2009
- *Annual Review of Regulatory Burdens on Business — Social and Economic Infrastructure Services*, Research Report, 15 September 2009
- *Public and Private Hospitals*, Research Report, 10 December 2009
- *Australia's Anti-dumping and Countervailing System*, Inquiry Report No. 48, 18 December 2009
- *Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety*, Research Report, 22 December 2009
- *Executive Remuneration in Australia*, Inquiry Report No. 49, 4 January 2010
- *Contribution of the Not-for-Profit Sector*, Research Report, 11 February 2010.
- *Market Mechanisms for Recovering Water in the Murray-Darling Basin*, Research Report, 31 March 2010
- *Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety*, Research Report, 6 April 2010
- *Public and Private Hospitals: Multivariate Analysis*, Supplement to Research Report, 18 May 2010
- *Gambling*, Inquiry Report No. 50, 23 June 2010
- *Wheat Export Marketing Arrangements*, Inquiry Report No. 51, 1 July 2010\*

## **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

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publications agent Pirion/JS McMillan and from the Commission's website. Publications produced in 2009-10 and many Secretariat reports from previous years are also available on compact disk.

- *Report on Government Services 2010*, Volume 1: Early Childhood, Education and Training, Justice; Emergency Management (January 2010)
- *Report on Government Services 2010*, Volume 2: Health, Community Services, Housing (January 2010)
- *Report on Government Service 2010: Indigenous Compendium* (April 2009)

## **Competitive neutrality complaints**

No competitive neutrality complaints reports were published in 2009-10. Copies of previous investigations are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and Productivity Commission.

## **Supporting research and annual reporting**

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

### **Annual Reports**

- *Annual Report 2008-09* (October 2009)
- *Trade & Assistance Review 2008-09* (April 2010)

### **Chairman's speeches**

Copies of the following speeches by Gary Banks are available from the Commission's website.

- *Advancing Australia's Human Capital Agenda* (April 2010)
- *An Economy-wide View: Speeches on Structural Reform* (March 2010)
- *Statistics, Productivity and Reform* (March 2010)
- *Markets: how free?* (November 2009)

- 
- *Back to the Future: Restoring Australia's Productivity Growth* (November 2009)
  - *Executive pay: economic issues from the Commission's report* (October 2009)
  - *Are we overcoming Indigenous disadvantage?* (July 2009)

### **Richard Snape Lecture**

The seventh Richard Snape Lecture was held on 25 November 2009. The lecture is available on the Commission's website.

- *China's Policy Responses to the Global Financial Crisis*, Professor Yu Yongding (November 2009)

### **Conference/roundtable 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.

- *Strengthening Evidence-based Policy in the Australian Federation* (August 2009)

### **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.

- *Modelling the Effects of the EU Common Agricultural Policy* (December 2009)
- *The Effects of Education and Health on Wages and Productivity* (March 2010)
- *Developing a Partial Equilibrium Model of an Urban Water System* (March 2010)

### **Visiting Research Paper**

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.

- *Valuing the Future: the social discount rate in cost-benefit analysis* (April 2010)

- 
- *Work Choices of Married Women: drivers of change* (January 2010)

## **Other publications**

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

- *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 44, July 2009; Issue 45, October 2009; Issue 45, February 2010)





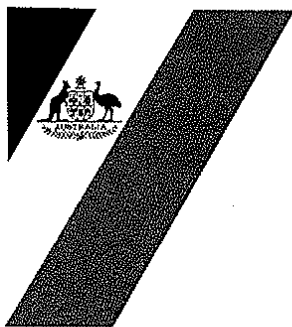
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# G Financial Statements

**This appendix presents the audited financial statements for the Productivity Commission for 2009-10.**

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## INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

### Report on the Financial Statements

I have audited the accompanying financial statements of Productivity Commission for the year ended 30 June 2010, which comprise: the Statement by the Chairman and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Asset Additions; and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

#### *The Chairman's Responsibility for the Financial Statements*

The Productivity Commission's 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*, including the Australian Accounting Standards (which include 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. I have conducted my audit 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 Productivity 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 Productivity Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Productivity Commission's Chairman, 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*, including the Australian Accounting Standards; 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 2010 and its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

As explained in note 15 of the financial statements, certain payments not covered by Remuneration Tribunal determinations represent a breach of section 83 of the Constitution, which requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

Australian National Audit Office



John Jones  
Executive Director

Delegate of the Auditor-General  
Canberra  
27 August 2010



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

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*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 2010 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 'Gary Banks'.

Gary Banks  
Chairman

26 August 2010

A handwritten signature in black ink, appearing to read 'Brian Scammell'.

Brian Scammell  
Chief Finance Officer

26 August 2010

## Statement of Comprehensive Income

for the period ended 30 June 2010

		2010	2009
	Notes	\$'000	\$'000
<b>EXPENSES</b>			
Employee benefits	3A	25,206	23,082
Supplier expenses	3B	7,440	7,016
Depreciation and amortisation	3C	1,033	1,145
Finance costs	3D	31	28
Write-down and impairment of assets	3E	–	491
Losses from asset sales	3F	7	–
<b>Total Expenses</b>		<b><u>33,717</u></b>	<b><u>31,762</u></b>
<b>LESS:</b>			
<b>OWN-SOURCE INCOME</b>			
<i>Own-source revenue</i>			
Sale of goods and rendering of services	4A	<u>617</u>	<u>694</u>
<b>Total own-source revenue</b>		<b><u>617</u></b>	<b><u>694</u></b>
<i>Gains</i>			
Sale of assets	4B	–	7
Other gains	4C	<u>35</u>	<u>34</u>
<b>Total gains</b>		<b><u>35</u></b>	<b><u>41</u></b>
<b>Total own-source income</b>		<b><u>652</u></b>	<b><u>735</u></b>
<b>Net cost of (contribution by) services</b>		<b><u>33,065</u></b>	<b><u>31,027</u></b>
Revenue from Government	4D	34,388	31,621
<b>Surplus (Deficit) attributable to the Australian Government</b>		<b><u>1,323</u></b>	<b><u>594</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Changes in asset revaluation reserves	5A	<u>429</u>	–
<b>Total comprehensive income attributable to the Australian Government</b>		<b><u>1,752</u></b>	<b><u>594</u></b>

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

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## Balance Sheet

as at 30 June 2010

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		2010	2009
	Notes	\$'000	\$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	6A	415	224
Trade and other receivables	6B	<u>9,901</u>	<u>11,784</u>
<b>Total financial assets</b>		<b><u>10,316</u></b>	<b><u>12,008</u></b>
<b>Non-Financial Assets</b>			
Land and buildings	7A	2,972	3,191
Property, plant and equipment	7B, D	666	953
Intangibles	7C, D	101	100
Other	7E	<u>522</u>	<u>516</u>
<b>Total non-financial assets</b>		<b><u>4,261</u></b>	<b><u>4,760</u></b>
<b>Total Assets</b>		<b><u>14,577</u></b>	<b><u>16,768</u></b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	8A	371	463
Other	8B	<u>439</u>	<u>331</u>
<b>Total payables</b>		<b><u>810</u></b>	<b><u>794</u></b>
<b>Provisions</b>			
Employee provisions	9A	9,017	7,808
Other provisions	9B	<u>538</u>	<u>507</u>
<b>Total provisions</b>		<b><u>9,555</u></b>	<b><u>8,315</u></b>
<b>Total Liabilities</b>		<b><u>10,365</u></b>	<b><u>9,109</u></b>
<b>Net Assets</b>		<b><u>4,212</u></b>	<b><u>7,659</u></b>
<b>EQUITY</b>			
Contributed equity		(2,341)	2,858
Asset revaluation reserves		2,154	1,725
Retained earnings		<u>4,399</u>	<u>3,076</u>
<b>Total Equity</b>		<b><u>4,212</u></b>	<b><u>7,659</u></b>

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

## Statement of Changes in Equity

as at 30 June 2010

<i>Item</i>	<i>Retained earnings</i>		<i>Asset revaluation reserve</i>		<i>Contributed equity</i>		<i>Total equity</i>	
	<b>2010</b>	<i>2009</i>	<b>2010</b>	<i>2009</i>	<b>2010</b>	<i>2009</i>	<b>2010</b>	<i>2009</i>
	<b>\$'000</b>	<i>\$'000</i>	<b>\$'000</b>	<i>\$'000</i>	<b>\$'000</b>	<i>\$'000</i>	<b>\$'000</b>	<i>\$'000</i>
<b>Opening balance</b>								
Balance carried forward from previous period	<b>3,076</b>	2,482	<b>1,725</b>	1,725	<b>2,858</b>	2,858	<b>7,659</b>	7,065
<b>Adjusted opening balance</b>	<b>3,076</b>	2,482	<b>1,725</b>	1,725	<b>2,858</b>	2,858	<b>7,659</b>	7,065
<b>Comprehensive Income</b>								
Other comprehensive income	–	–	<b>429</b>	–	–	–	<b>429</b>	–
Surplus (Deficit) for the period	<b>1,323</b>	594	–	–	–	–	<b>1,323</b>	594
<b>Total comprehensive income</b>	<b>1,323</b>	594	<b>429</b>	–	–	–	<b>1,752</b>	594
<b>Transactions with owners</b>								
<b>Distributions to Owners</b>								
Other – net cash appropriations	–	–	–	–	<b>(5,199)</b>	–	<b>(5,199)</b>	–
<b>Sub-total transactions with owners</b>	–	–	–	–	<b>(5,199)</b>	–	<b>(5,199)</b>	–
<b>Closing balance as at 30 June</b>	<b>4,399</b>	3,076	<b>2,154</b>	1,725	<b>(2,341)</b>	2,858	<b>4,212</b>	7,659

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

## Cash Flow Statement

for the period ended 30 June 2010

		2010	2009
	Notes	\$'000	\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		789	743
Appropriations		31,488	29,030
Net GST received		<u>716</u>	<u>729</u>
<b>Total cash received</b>		<b><u>32,993</u></b>	<b><u>30,502</u></b>
<b>Cash used</b>			
Employees		23,915	22,465
Suppliers		8,266	7,956
Other		<u>515</u>	<u>—</u>
<b>Total cash used</b>		<b><u>32,696</u></b>	<b><u>30,421</u></b>
<b>Net cash from (used by) operating activities</b>	10	<b><u>297</u></b>	<b><u>81</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of property, plant and equipment		<u>—</u>	<u>7</u>
<b>Total cash received</b>		<b><u>—</u></b>	<b><u>7</u></b>
<b>Cash Used</b>			
Purchase of property, plant and equipment		<u>106</u>	<u>152</u>
<b>Total cash used</b>		<b><u>106</u></b>	<b><u>152</u></b>
<b>Net cash from (used by) investing activities</b>		<b><u>(106)</u></b>	<b><u>(145)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Contributed equity		—	—
Other		<u>—</u>	<u>—</u>
<b>Total cash received</b>		<b><u>—</u></b>	<b><u>—</u></b>
<b>Cash Used</b>			
Other		<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>—</u></b>	<b><u>—</u></b>
<b>Net increase (decrease) in cash held</b>		<b>191</b>	<b>(64)</b>
Cash and cash equivalents at the beginning of the reporting period		<u>224</u>	<u>288</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	6A	<b><u>415</u></b>	<b><u>224</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 2010

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
GST recoverable on commitments	<u>(1,256)</u>	<u>(1,551)</u>
<b>Total commitments receivable</b>	<u>(1,256)</u>	<u>(1,551)</u>
<b>Commitments payable</b>		
<b>Other commitments</b>		
Operating leases <sup>1</sup>	13,105	16,091
Other commitments <sup>2</sup>	<u>707</u>	<u>975</u>
<b>Total other commitments</b>	<u>13,812</u>	<u>17,066</u>
<b>Net commitments by type</b>	<u>12,556</u>	<u>15,515</u>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Other commitments receivable</b>		
One year or less	(310)	(285)
From one to five years	(633)	(769)
Over five years	<u>(313)</u>	<u>(497)</u>
<b>Total other commitments receivable</b>	<u>(1,256)</u>	<u>(1,551)</u>
<b>Commitments payable</b>		
<b>Operating lease commitments</b>		
One year or less	2,867	2,683
From one to five years	6,799	7,938
Over five years	<u>3,439</u>	<u>5,470</u>
<b>Total operating lease commitments</b>	<u>13,105</u>	<u>16,091</u>
<b>Other commitments</b>		
One year or less	539	454
From one to five years	168	521
Over five years	<u>—</u>	<u>—</u>
<b>Total other commitments</b>	<u>707</u>	<u>975</u>
<b>Net commitments by maturity</b>	<u>12,556</u>	<u>15,515</u>

NB: Commitments are GST inclusive where relevant.

<sup>1</sup> Operating leases included are effectively non-cancellable and comprise:

***Leases for office accommodation and carparking***

Lease payments are subject to fixed annual increase in accordance with the lease agreement. In Melbourne, the current lease expires on 30 June 2011. In Canberra the current lease expires on 30 April 2017, with a five year option.

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***Agreements for the provision of motor vehicles to senior executive officers***

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

<sup>2</sup> Other commitments are primarily contracts for office services.

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

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## Schedule of Asset Additions

as at 30 June 2010

The following non-financial non-current assets were added in 2009-10:

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	<i>Buildings</i> \$'000	<i>Other property, plant &amp; equipment</i> \$'000	<i>Intangibles</i> \$'000	<i>Total</i> \$'000
By purchase – appropriation equity	–	–	–	–
By purchase – appropriation ordinary annual services	–	77	29	106
<b>Total additions</b>	–	77	29	106

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The following non-financial non-current assets were added in 2008-09:

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	<i>Buildings</i> \$'000	<i>Other property, plant &amp; equipment</i> \$'000	<i>Intangibles</i> \$'000	<i>Total</i> \$'000
By purchase – appropriation equity	–	–	–	–
By purchase – appropriation ordinary annual services	–	95	57	152
<b>Total additions</b>	–	95	57	152

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

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## 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 Reporting Period
3	Expenses
4	Income
5	Other Comprehensive Income
6	Financial Assets
7	Non-Financial Assets
8	Payables
9	Provisions
10	Cash Flow Reconciliation
11	Contingent Liabilities and Assets
12	Senior Executive Remuneration
13	Remuneration of Auditors
14	Financial Instruments
15	Appropriations
16	Special Accounts
17	Compensation and Debt Relief
18	Reporting of Outcomes

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## **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 one 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.*

Activities contributing toward this outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Commission in its own right.

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

### **1.2 Basis of Preparation of the Financial Statements**

The Financial Statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial statements.

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 2009; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and is in accordance with the 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 statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

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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 Commission 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 unrecognised are reported in the Schedule of Commitments or the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income 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 New Australian Accounting Standards**

#### **Adoption of New Australian Accounting Standard Requirements**

No accounting standard has been adopted earlier than the application date as stated in the standard.

New standards, amendments to standards or interpretations that were issued prior to the signing of the statement by the Chairman and Chief Finance Officer and are applicable to the current reporting period did not have a financial impact, and are not expected to have a future financial impact on the entity.

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### Future Australian Accounting Standard Requirements

New standards, amendments to standards or interpretations that were issued by the Australian Accounting Standards Board prior to the signing of the statement by the Chairman and Chief Finance Officer and are applicable for future reporting periods are not expected to have a financial impact on the entity.

## **1.5 Revenue**

### Revenue from Government

Amounts appropriated for departmental outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue when the Commission 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 Commission 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 Commission.

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 Commission.

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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 impairment allowance account. Collectability of debts is reviewed at end of reporting period. Allowances 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.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

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).

### *Sale of Assets*

Gains from disposal of 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.



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### 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 ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of end of reporting period 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.

Other long-term employee benefit liabilities are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

### 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 at the estimated salary rates that applied at the time the leave is taken, 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.

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### 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 2010. (2009: Nil)

### Superannuation

The majority of the 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 current 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.

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 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 an 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 is recognised at the same time and for the same amount.

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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, where the impact is material.

### **1.10 Borrowing Costs**

All borrowing costs are expensed as incurred.

### **1.11 Cash**

Cash and cash equivalents includes cash on hand, cash with outsiders, demand deposits in bank accounts with an 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.

### **1.12 Financial Assets**

The Commission classifies its financial assets in the following categories:

- financial assets as at fair value through profit or 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.

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Income is recognised on an effective interest rate basis except for financial assets that are recognised at ‘fair value through profit or 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’. 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 the end of each reporting period.

*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 statement of comprehensive income.

*Financial assets held at cost* – if there is objective evidence that an impairment loss has been incurred the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

## **1.13 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’.

### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction cost.

Other financial liabilities, including 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).

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## **1.14 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 a liability or an asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Details of each class of contingent liabilities and contingent assets are disclosed in Note 11: Contingent Liabilities and Contingent Assets.

## **1.15 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 income 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.

## **1.16 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 'make-good' provisions in property leases taken up by the Commission where there exists an obligation to 'make-good' premises. These costs are included

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in the value of the Commission's leasehold improvements with a corresponding provision for the 'make-good' 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
Infrastructure, 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. Assets were revalued by the Australian Valuation Office (AVO) as at 30 June 2010.

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 surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit 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:

	2010	2009
Leasehold improvements and make-good	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 to 20 years</b>	3 to 10 years
Intangibles (computer software)	<b>5 years</b>	5 years

### Impairment

All assets were assessed for impairment at 30 June 2010. 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.

### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

## **1.17 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 (2008-09: 5 years).

All software assets were assessed for indicators of impairment as at 30 June 2010.

## **1.18 Taxation**

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

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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
- for receivables and payables.

**Note 2: Events after the Reporting Period**

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.



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**Note 3: Expenses***Note 3A: Employee benefits*

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Wages and salaries	<b>18,730</b>	18,326
Superannuation:		
Defined contribution plans	<b>624</b>	499
Defined benefit plans	<b>2,310</b>	2,541
Leave and other entitlements	<b>3,542</b>	1,716
Separation and redundancies	<u>—</u>	<u>—</u>
<b>Total employee benefits</b>	<b><u>25,206</u></b>	<b><u>23,082</u></b>

*Note 3B: Suppliers*

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
<b>Goods and Services</b>		
Consultants	<b>45</b>	113
Contractors	<b>4,503</b>	4,103
Stationery	<u>158</u>	<u>135</u>
<b>Total goods and services</b>	<b><u>4,706</u></b>	<b><u>4,351</u></b>
Goods and services are made up of:		
Provision of goods – related entities	<u>—</u>	<u>—</u>
Provision of goods – external parties	<b>226</b>	236
Rendering of services – related entities	<b>363</b>	418
Rendering of services – external parties	<u>4,117</u>	<u>3,697</u>
<b>Total goods and services</b>	<b><u>4,706</u></b>	<b><u>4,351</u></b>
<b>Other supplier expenses</b>		
Operating lease rentals – external parties:		
Minimum lease payments	<b>2,693</b>	2,632
Workers compensation premiums	<u>41</u>	<u>33</u>
<b>Total other supplier expenses</b>	<b><u>2,734</u></b>	<b><u>2,665</u></b>
<b>Total supplier expenses</b>	<b><u>7,440</u></b>	<b><u>7,016</u></b>

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**Note 3C: Depreciation and Amortisation**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation:		
Leasehold improvements	<b>609</b>	667
Infrastructure, plant and equipment	<u><b>338</b></u>	<u>402</u>
<b>Total depreciation</b>	<u><b>947</b></u>	<u>1,069</u>
Amortisation:		
Leasehold make-good	<b>59</b>	58
Intangibles:		
Computer software	<u><b>27</b></u>	<u>18</u>
<b>Total amortisation</b>	<u><b>86</b></u>	<u>76</u>
<b>Total depreciation and amortisation</b>	<u><b>1,033</b></u>	<u>1,145</u>

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**Note 3D: Finance Costs**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Unwinding of discount	<u><b>31</b></u>	<u>28</u>
<b>Total finance costs</b>	<u><b>31</b></u>	<u>28</u>

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**Note 3E: Write-Down and Impairment of Assets**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Asset writedowns from:		
Impairment of property, plant & equipment	<u><b>-</b></u>	<u>491</u>
<b>Total write-down and impairment of assets</b>	<u><b>-</b></u>	<u>491</u>

In 2008-09, an impairment of property, plant & equipment (leasehold improvement) was recognised in respect of office space no longer occupied by the Commission.

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*Note 3F: Losses from asset sales*

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Property, plant and equipment:		
Proceeds from sale	-	-
Carrying value of assets sold	<b>6</b>	-
Selling expense	-	-
Intangibles:		
Proceeds from sale	-	-
Carrying value of assets sold	<b>1</b>	-
Selling expense	<u>-</u>	<u>-</u>
<b>Total losses from asset sales</b>	<u><u><b>7</b></u></u>	<u><u>-</u></u>

**Note 4: Income**

**REVENUE**

*Note 4A: Sale of Goods and Rendering of Services*

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision of goods – related entities	-	-
Provision of goods – external parties	<b>24</b>	1
Rendering of services – related entities	<b>551</b>	642
Rendering of services – external parties	<u><b>42</b></u>	<u>51</u>
<b>Total sales of goods and rendering of services</b>	<u><u><b>617</b></u></u>	<u><u>694</u></u>

**GAINS**

*Note 4B: Sale of Assets*

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Property, plant and equipment:		
Proceeds from sale	-	7
Carrying value of assets sold	-	-
Selling expense	<u>-</u>	<u>-</u>
<b>Net gain from sale of assets</b>	<u><u>-</u></u>	<u><u>7</u></u>

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*Note 4C: Other Gains*

	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Resources received free of charge	<u>35</u>	<u>34</u>
<b><i>Total other gains</i></b>	<b><u>35</u></b>	<b><u>34</u></b>

***Revenue from Government***

*Note 4D: Revenue from Government*

	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Appropriations:		
Departmental outputs	<u>34,388</u>	<u>31,621</u>
<b><i>Total revenue from Government</i></b>	<b><u>34,388</u></b>	<b><u>31,621</u></b>

**Note 5: Other Comprehensive Income**

*Note 5A: Changes in asset revaluation reserves*

	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Buildings - leasehold improvement revaluation increment	449	-
Property, plant and equipment revaluation decrement	<u>(20)</u>	<u>-</u>
<b><i>Total other comprehensive income</i></b>	<b><u>429</u></b>	<b><u>-</u></b>

**Note 6: Financial assets**

*Note 6A: Cash and Cash Equivalents*

	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Cash on hand or on deposit	<u>415</u>	<u>224</u>
<b><i>Total cash and cash equivalents</i></b>	<b><u>415</u></b>	<b><u>224</u></b>

Note 6B: Trade and Other Receivables

	<b>2010</b>	<b>2009</b>
	<b>'000</b>	<b>'000</b>
<b>Goods and Services:</b>		
Goods and services – related entities	–	127
Goods and services – external parties	<u>17</u>	<u>18</u>
<b>Total receivables for goods and services</b>	<u>17</u>	<u>145</u>
<b>Appropriations receivable:</b>		
For existing outputs	<b>9,786</b>	10,702
For additional outputs	<u>–</u>	<u>868</u>
<b>Total appropriations receivable</b>	<u>9,786</u>	<u>11,570</u>
<b>Other receivables:</b>		
GST receivable from the Australian Taxation Office	<b>89</b>	69
Other	<u>9</u>	<u>–</u>
<b>Total other receivables</b>	<u>98</u>	<u>69</u>
<b>Total trade and other receivables</b>	<u>9,901</u>	<u>11,784</u>
Receivables are expected to be recovered in:		
No more than 12 months	<b>9,901</b>	11,784
More than 12 months	<u>–</u>	<u>–</u>
<b>Total trade and other receivables</b>	<u>9,901</u>	<u>11,784</u>
Receivables are aged as follows:		
Not overdue	<b>9,901</b>	11,773
Overdue by:		
More than 90 days	<u>–</u>	<u>11</u>
<b>Total receivables</b>	<u>9,901</u>	<u>11,784</u>

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## Note 7: Non-Financial Assets

### Note 7A: Land and buildings

	2010	2009
	\$'000	\$'000
Leasehold improvements		
Fair value	2,972	4,797
Accumulated depreciation	–	(1,115)
Accumulated impairment losses	–	(491)
<b>Total leasehold improvements</b>	<b><u>2,972</u></b>	<b><u>3,191</u></b>
<b>Total land and buildings</b>	<b><u>2,972</u></b>	<b><u>3,191</u></b>

No indicators of impairment were found for land and building.

No land or buildings are expected to be sold or disposed of within the next 12 months.

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer from the Australian Valuation Office conducted the revaluations.

### Note 7B: Property, plant and equipment

	2010	2009
	\$'000	\$'000
Other property, plant and equipment		
Fair value	666	1,762
Accumulated depreciation	–	(809)
<b>Total other property, plant and equipment</b>	<b><u>666</u></b>	<b><u>953</u></b>
<b>Total property, plant and equipment</b>	<b><u>666</u></b>	<b><u>953</u></b>

No indicators of impairment were found for property, plant and equipment.

No property, plant or equipment is expected to be sold or disposed of within the next 12 months.

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer from the Australian Valuation Office conducted the revaluations.

The revaluation increment for leasehold improvements and decrement for plant and equipment were credited and debited respectively to the asset revaluation reserve by asset class, and included in the equity section of the balance sheet; no increments or decrements were expensed.

**Note 7C: Intangibles**

	2010	2009
	\$'000	\$'000
Computer software		
Purchased	544	524
Accumulated amortisation	<u>(443)</u>	<u>(424)</u>
<b>Total intangibles</b>	<b><u>101</u></b>	<b><u>100</u></b>

No indicators of impairment were found for intangible assets.

No intangibles are expected to be sold or disposed of within the next 12 months.

**Note 7D: Analysis of property, plant and equipment, and intangibles**

**TABLE A – Reconciliation of the Opening and Closing Balances of property, plant and equipment (2009-10)**

Item	Leasehold improvements \$'000	Other property, plant & equipment \$'000	Total \$'000
<b>As at 1 July 2009</b>			
Gross book value	4,797	1,762	6,559
Accumulated depreciation and impairment	<u>(1,606)</u>	<u>(809)</u>	<u>(2,415)</u>
<b>Net book value 1 July 2009</b>	<b><u>3,191</u></b>	<b><u>953</u></b>	<b><u>4,144</u></b>
Additions:			
By purchase	–	77	77
Revaluations and impairments recognised in other comprehensive income	449	(20)	429
Depreciation expense	(668)	(338)	(1,006)
Disposals:			
Other	<u>–</u>	<u>(6)</u>	<u>(6)</u>
<b>Net book value 30 June 2010</b>	<b><u>2,972</u></b>	<b><u>666</u></b>	<b><u>3,638</u></b>
<b>Net book value as of 30 June 2010 represented by:</b>			
Gross book value	2,972	666	3,638
Accumulated depreciation	<u>–</u>	<u>–</u>	<u>–</u>
	<b><u>2,972</u></b>	<b><u>666</u></b>	<b><u>3,638</u></b>

*TABLE A continued – Reconciliation of the opening and closing balances of property, plant and equipment (2008-09)*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total</i>
	\$'000	\$'000	\$'000
<b>As at 1 July 2008</b>			
Gross book value	4,855	1,678	6,533
Accumulated depreciation and impairment	<u>(448)</u>	<u>(418)</u>	<u>(866)</u>
<b>Net book value 1 July 2008</b>	<u>4,407</u>	<u>1,260</u>	<u>5,667</u>
Additions:			
By purchase	–	95	95
Impairments recognised in the operating result	(491)	–	(491)
Depreciation expense	(725)	(402)	(1,127)
Disposals:			
Other	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net book value 30 June 2009</b>	<u>3 191</u>	<u>953</u>	<u>4 144</u>
<b>Net book value as of 30 June 2009 represented by:</b>			
Gross book value	4,797	1,762	6,559
Accumulated depreciation	(1,115)	(809)	(1,924)
Accumulated impairment losses	<u>(491)</u>	<u>–</u>	<u>(491)</u>
	<u>3,191</u>	<u>953</u>	<u>4,144</u>



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*TABLE B – Reconciliation of the opening and closing balances of intangibles (2009-10)*

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<i>Item</i>	<i>Computer software purchased</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2009</b>		
Gross book value	<b>524</b>	<b>524</b>
Accumulated amortisation	<b><u>(424)</u></b>	<b><u>(424)</u></b>
<b>Net book value 1 July 2009</b>	<b><u>100</u></b>	<b><u>100</u></b>
Additions:		
By purchase	<b>29</b>	<b>29</b>
Amortisation	<b>(27)</b>	<b>(27)</b>
Disposals:		
Other	<b><u>(1)</u></b>	<b><u>(1)</u></b>
<b>Net book value 30 June 2010</b>	<b><u>101</u></b>	<b><u>101</u></b>
<b>Net book value as of 30 June 2010 represented by:</b>		
Gross book value	<b>544</b>	<b>544</b>
Accumulated amortisation	<b><u>(443)</u></b>	<b><u>(443)</u></b>
	<b><u>101</u></b>	<b><u>101</u></b>

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*TABLE B continued – Reconciliation of the opening and closing balances of intangibles (2008-09)*

<i>Item</i>	<i>Computer software purchased \$'000</i>	<i>Total \$'000</i>
<b>As at 1 July 2008</b>		
Gross book value	471	471
Accumulated amortisation	<u>(410)</u>	<u>(410)</u>
<b>Net book value 1 July 2008</b>	<u>61</u>	<u>61</u>
Additions:		
By purchase	57	57
Amortisation	<u>(18)</u>	<u>(18)</u>
<b>Net book value 30 June 2009</b>	<u>100</u>	<u>100</u>
<b>Net book value as of 30 June 2009 represented by:</b>		
Gross book value	524	524
Accumulated amortisation	<u>(424)</u>	<u>(424)</u>
	<u>100</u>	<u>100</u>

*Note 7E: Other non-financial assets*

	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Prepayments	<u>522</u>	<u>516</u>
<b>Total other non-financial assets</b>		
Total other non-financial assets – are expected to be recovered in:		
No more than 12 months	<b>522</b>	516
More than 12 months	<u>–</u>	<u>–</u>
<b>Total other non-financial assets</b>	<u>522</u>	<u>516</u>

All other non-financial assets are current assets.

No indicators of impairment were found for other non-financial assets.

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**Note 8: Payables***Note 8A: Suppliers*

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors and accruals	<u>371</u>	<u>463</u>
<b>Total supplier payables</b>	<b><u>371</u></b>	<b><u>463</u></b>
Supplier payables expected to be settled within 12 months:		
Related entities	52	65
External parties	<u>319</u>	<u>398</u>
<b>Total supplier payables</b>	<b><u>371</u></b>	<b><u>463</u></b>

Settlement is usually made within 30 days.

*Note 8B: Other Payables*

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	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Salaries and wages	381	282
Superannuation	<u>58</u>	<u>49</u>
<b>Total other payables</b>	<b><u>439</u></b>	<b><u>331</u></b>
Total other payables are expected to be settled in:		
No more than 12 months	<u>439</u>	<u>331</u>
<b>Total other payables</b>	<b><u>439</u></b>	<b><u>331</u></b>

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**Note 9: Provisions***Note 9A: Employee provisions*

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Leave	<u>9,017</u>	<u>7,808</u>
<b>Total employee provisions</b>	<u><b>9,017</b></u>	<u><b>7,808</b></u>
Employee provisions are expected to be settled in:		
No more than 12 months	<b>2,543</b>	2,585
More than 12 months	<u>6,474</u>	<u>5,223</u>
<b>Total employee provisions</b>	<u><b>9,017</b></u>	<u><b>7,808</b></u>

*Note 9B: Other provisions*

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision for restoration obligations	<u>538</u>	<u>507</u>
<b>Total other provisions</b>	<u><b>538</b></u>	<u><b>507</b></u>
Other provisions are expected to be settled in:		
No more than 12 months	<b>538</b>	–
More than 12 months	<u>–</u>	<u>507</u>
<b>Total other provisions</b>	<u><b>538</b></u>	<u><b>507</b></u>

	<b>Provision for restoration \$'000</b>
<b>Carrying amount 1 July 2009</b>	<b>507</b>
Additional provisions made	–
Amounts used	–
Amounts reversed	–
Unwinding of discount or change in discount rate	<u>31</u>
<b>Closing balance 2010</b>	<u><b>538</b></u>

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. (2008-09: 1 agreement)

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## Note 10: Cash Flow Reconciliation

	2010	2009
	\$'000	\$'000
<b>Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement</b>		
<b>Cash and Cash Equivalents as per:</b>		
Cash Flow Statement	415	224
Balance Sheet	<u>415</u>	<u>224</u>
<b>Difference</b>	<u><u>—</u></u>	<u><u>—</u></u>
 <b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net cost of services	(33,065)	(31,027)
Add revenue from Government	34,388	31,621
 <b>Adjustments for non-cash items</b>		
Depreciation / amortisation	1,033	1,145
Net write-down of non-financial assets	—	491
(Gain) / loss on disposal of assets	7	(7)
 <b>Change in assets / liabilities:</b>		
(Increase) / decrease in net receivables **	(3,316)	(2,596)
(Increase) / decrease in prepayments	(6)	(41)
Increase / (decrease) in employee provisions	1,209	545
Increase / (decrease) in supplier payables	(92)	(160)
Increase / (decrease) in other payables	108	82
Increase / (decrease) in other provisions	<u>31</u>	<u>28</u>
<b>Net cash from / (used by) operating activities</b>	<u><u>297</u></u>	<u><u>81</u></u>

\*\* is net of the Distribution to owners in the Statement of Changes in Equity

## Note 11: Contingent Liabilities and Contingent Assets

At 30 June 2010, 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: Senior Executive Remuneration

Note 12A: Actual remuneration paid to senior executives during the financial year

	2010	2009
<b>Executive Remuneration</b>		
The number of senior executives who received:		
Less than \$145,000*	1	2
\$145,000 to \$159,999	3	5
\$175,000 to \$189,999	2	3
\$190,000 to \$204,999	4	1
\$205,000 to \$219,999	4	5
\$220,000 to \$234,999	1	3
\$235,000 to \$249,999	4	3
\$250,000 to \$264,999	3	2
\$265,000 to \$279,999	–	1
\$280,000 to \$294,999	4	1
\$295,000 to \$309,999	1	–
\$310,000 to \$324,999	–	1
\$355,000 to \$369,999	<u>2</u>	<u>1</u>
<b>Total</b>	<u><b>29</b></u>	<u><b>28</b></u>

\* Excluding acting arrangements and part-year service (but including part-time service).

### Total expense recognised in relation to Senior Executive employment

Short-term employee benefits:

Salary (including annual leave taken)	5,272,162	4,712,736
Changes in annual leave provisions	14,563	(33,007)
Performance bonus	327,188	289,592
Other <sup>1</sup>	<u>212,450</u>	<u>217,111</u>
Total short-term employee benefits	<u>5,826,363</u>	<u>5,186,431</u>
Superannuation (post-employment benefits)	764,756	881,257
Other long-term benefits	<u>68,862</u>	<u>(45,987)</u>
<b>Total</b>	<u><b>\$6 659 981</b></u>	<u><b>\$6,021,702</b></u>

<sup>1</sup> "Other" includes motor vehicle allowances and other allowances.

During the year the Commission paid nil in termination benefits to senior executives. (2009: nil)

This note includes remuneration of members of the Commission and employees in the Senior Executive Service. Note 12A reflects the number of senior executives paid during the year whereas Note 12B reflects the number of senior executives at 30 June.

**Note 12B: Salary packages for Senior Executives as at 30 June**  
**Average annualised remuneration packages for substantive Senior Executives**

	As at 30 June 2010			As at 30 June 2009		
	No. SES	Base salary	Total remuneration package <sup>1</sup>	No. SES	Base salary	Total remuneration package <sup>1</sup>
Total Remuneration:						
Less than \$145,000*	3	120,430	132,266	4	118,726	131,673
\$160,000 to \$174,999	-	-	-	1	136,337	170,921
\$175,000 to \$189,999	2	145,514	187,495	6	158,302	183,887
\$190,000 to \$204,999	7	154,248	193,317	4	166,765	198,075
\$205,000 to \$219,999	4	165,375	212,885	3	173,440	210,123
\$220,000 to \$234,999	2	173,309	223,534	3	176,710	227,240
\$235,000 to \$249,999	1	192,456	243,431	-	-	-
\$250,000 to \$264,999	1	194,497	251,805	4	211,438	259,647
\$265,000 to \$279,999	5	228,422	270,609	2	237,931	273,126
\$280,000 to \$294,999	1	253,488	287,337	1	226,037	285,193
\$295,000 to \$309,999	-	-	-	1	237,207	308,756
\$340,000 to \$354,999	1	278,828	345,904	-	-	-
\$355,000 to \$369,999	-	-	-	1	270,239	360,741
\$445,000 to \$459,999	1	400,767	455,252	-	-	-
<b>Total</b>	<b>28</b>			<b>30</b>		

\* Excluding acting arrangements and part-year service (but including part-time service).

<sup>1</sup> Non-Salary elements available to Senior Executives include motor vehicle allowance and superannuation. Some executives have access to a performance bonus (not included above). The average performance bonus for those eligible was \$12,584. (2009: \$11,138). 'Total remuneration package' excludes accrued Long Service Leave. 'Total remuneration package' and 'base salary' are the average of those within the band of 'Total Remuneration'.

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## Note 13: Remuneration of Auditors

	2010	2009
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Commission.		
The fair value of the services provided was:	<u>35</u>	<u>34</u>
	<u>35</u>	<u>34</u>

No other services were provided by the Auditor-General.

## Note 14: Financial Instruments

### Note 14A: Categories of financial instruments

	2010	2009
	\$'000	\$'000
<b>Financial Assets</b>		
Loans and receivables		
Cash and cash equivalents	415	224
Trade receivables	<u>17</u>	<u>145</u>
<b>Carrying amount of financial assets</b>	<u>432</u>	<u>369</u>
<b>Financial Liabilities</b>		
Other liabilities		
Payables – suppliers	<u>371</u>	<u>463</u>
<b>Carrying amount of financial liabilities</b>	<u>371</u>	<u>463</u>

### Note 14B: 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 2010. (2009: nil)

### Note 14C: Net income and expense from financial liabilities

There is no income or expense from other financial liabilities in the year ending 30 June 2010. (2009: nil)



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*Note 14D: Fair value of financial instruments*

There are no financial instruments held at 30 June 2010 where the carrying amount is not a reasonable approximation of fair value. (2009: nil)

*Note 14E: 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 (2010: \$17,000 and 2009: \$145,000). 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 2010. (2009: nil)

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 6B.

*Note 14F: 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. (2009: one year)

**Note 14G: 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 15: Appropriations**

*Table A1: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations*

<b>Particulars</b>	<b>Departmental Outputs</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous period (Appropriation Acts)	<b>10,995</b>	9,371
<i>Appropriation Act:</i>		
<i>Appropriation Act (No 1, 3 &amp; 5) 2009-2010 as passed</i>	<b>34,561</b>	30,753
Appropriations reduced ( <i>Appropriation Act</i> sections 10, 11, 12 & 14)	<b>(5,372)</b>	–
<i>FMA Act:</i>		
Repayments to the Commonwealth ( <i>FMA Act</i> section	<b>21</b>	52
Appropriations to take account of recoverable GST ( <i>FMA Act</i> section 30A) <sup>1</sup>	<b>736</b>	694
Relevant agency receipts ( <i>FMA</i> s 31)	<b>768</b>	698
<b>Total appropriations available for payments</b>	<b>41,709</b>	41,568
Cash payments made during the year (GST inclusive)	<b>(31,419)</b>	(30,573)
<b>Balance of authority to draw cash from the Consolidated Revenue Fund for ordinary annual services appropriations as represented by:</b>	<b>10,290</b>	10,995
Cash at bank and on hand	<b>415</b>	224
Departmental appropriations receivable	<b>9,786</b>	10,702
Net GST payable to/from ATO	<b>89</b>	69
<b>Total as at 30 June</b>	<b>10,290</b>	10,995

<sup>1</sup> The amounts in this line are calculated on an accrual basis to the extent that an expense may have been incurred that includes GST but has not been paid by year end.

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 13 May 2010, the Finance Minister determined a reduction in departmental appropriations. The amount of the reduction determined under Appropriation Act (No.3) 2009-10 was \$5,199,000.

On 29 June 2010, the Finance Minister determined a reduction in departmental appropriations following a request by the Treasurer. The amount of the reduction determined under Appropriation Act (No.1) of 2009-10 was \$173,000.

During 2009-10, the Commission received legal advice that certain payments were not covered by Remuneration Tribunal determinations. The payments, amounting to \$54,268, represent a breach of section 83 of the Constitution. A waiver for recovery of these payments was made pursuant to section 34(1) of the FMA Act (refer Note 17). Appropriate determinations have subsequently been put in place to allow payments to be made in future.

*Table B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations*

<b>Particulars</b>	<b>Non-operating</b>				<b>Total</b>	
	<b>Equity</b>		<b>Previous Years' Outputs</b>			
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous period	-	-	-	-	-	-
<i>(Appropriation Acts):</i>						
<i>Appropriation Act (No 2, 4 &amp; 6 2009-2010 as passed)</i>	-	-	<b>868</b>	-	-	-
<b>Total appropriations available for payments</b>	-	-	<b>868</b>	-	-	-
Cash payments made during the year (GST inclusive)	-	-	<b>(868)</b>	-	-	-
<b>Balance of authority to draw cash from the Consolidated Revenue Fund for other than ordinary annual services appropriations and as represented by:</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Departmental appropriation receivable	-	-	<b>868</b>	868	<b>868</b>	868
Adjustments under s101.13 of the Finance Minister's Orders not reflected above	-	-	<b>(868)</b>	(868)	<b>(868)</b>	(868)
<b>Total as at 30 June</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

In accordance with s101.10 and s101.13 of the Finance Minister's Orders, the Productivity Commission has recognised as revenue and appropriation receivable an additional appropriation relating to the 2008-09 year to be received in 2009-10 as previous years' outputs. This amount is reflected in the 2009-10 Appropriation Bills and Portfolio Budget Statements.

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## Note 16: Special Accounts

The Commission has an Other Trust Monies Special Account. This account was established under section 20 of the *Financial Management and Accountability Act 1997*. 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*. For the years ended 30 June 2000-2010, the account had a nil balance and there were no transactions debited or credited to it.

The Commission's Services for other Governments and Non-Agency Bodies Account was abolished with effect from 11 September 2009.

## Note 17: Compensation and Debt Relief

	2010	2009
	\$	\$
<b>Departmental</b>		
No 'Act of Grace' expenses were incurred during the reporting period. (2009: No expenses)	—	—
2 waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2009: No waivers)	<b>54,268</b>	—
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2009: No payments)	—	—
No ex gratia payments were provided for during the reporting period. (2009: No payments)	—	—
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the Public Service Act 1999 (PS Act) during the reporting period. (2009: No payments)	—	—

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## Note 18: Reporting of Outcomes

### Note 18A: Net Cost of Outcome Delivery

	<i>Outcome 1</i>	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>Expenses</b>		
Departmental	<u>33,717</u>	<u>31,762</u>
<b>Total</b>	<u>33,717</u>	<u>31,762</u>
<b>Income from non-government sector</b>		
Departmental		
Gain from disposal of asset	–	7
Reversal of previous asset write-downs	–	–
Goods and services income	<u>66</u>	<u>52</u>
Other	<u>–</u>	<u>–</u>
Total departmental	<u>66</u>	<u>59</u>
<b>Total</b>	<u>66</u>	<u>59</u>
<b>Other own-source income</b>		
Departmental	<u>586</u>	<u>676</u>
<b>Total</b>	<u>586</u>	<u>676</u>
<b>Net cost/(contribution) of outcome delivery</b>	<u>33,065</u>	<u>31,027</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. Refer to Outcome 1 Resourcing Table on page [page no.] of this Annual Report.



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