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Inquiries:

Media and Publications

Productivity Commission

PO Box 80

Belconnen ACT 2616

Tel: (02) 6240 3239

Fax: (02) 6240 3300

Email: maps@pc.gov.au

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The Productivity Commission

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

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

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (02) 6240 3239.

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Commission photograph

Acknowledgment

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

Annual report series

The Commission is also releasing the following companion publications as part of the annual report series:

Regulation and its review 1998-99

This report assesses compliance with the Government's requirements for regulation impact analysis and reports on the activities of the Office of Regulation Review.

Trade and assistance review 1998-99

This report contains the Commission's latest estimates of agricultural, manufacturing and budgetary assistance for Australia and presents new estimates of barriers to trade in selected services for Australia and its trading partners.

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Abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AIRC	Australian Industrial Relations Commission
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
COAG	Council of Australian Governments
CCNCO	Commonwealth Competitive Neutrality Complaints Office
EPAC	Economic Planning Advisory Commission
ESD	Ecologically sustainable development
GATT	General Agreement on Tariffs and Trade
GTE	Government trading enterprise
IC	Industry Commission
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
RIS	Regulation Impact Statement
R&D	Research and development
US	United States of America
WTO	World Trade Organization

1 Sustaining Australia's productivity performance

The Australian economy is experiencing robust growth in productivity — mounting evidence of the reward for past efforts in implementing micro-economic reforms and establishing sound fiscal and monetary policy settings. This chapter draws together some insights from the Commission's work during the year which show how further reform can build on the substantial gains already achieved.

An impressive productivity performance

Australia's productivity growth — the major contributor to rising per capita incomes — continues to run at historical highs in Australia. In the four years from 1993-94, productivity growth in the market sector of the economy accelerated to 2.4 per cent a year — significantly above the previous average long-term rate of 1.2 per cent. **Australia's productivity performance since the early 1990s recession has been stronger and more prolonged than could be expected on the basis of past experience and goes well beyond the recovery shown after the 1980s recession (box 1.1).**

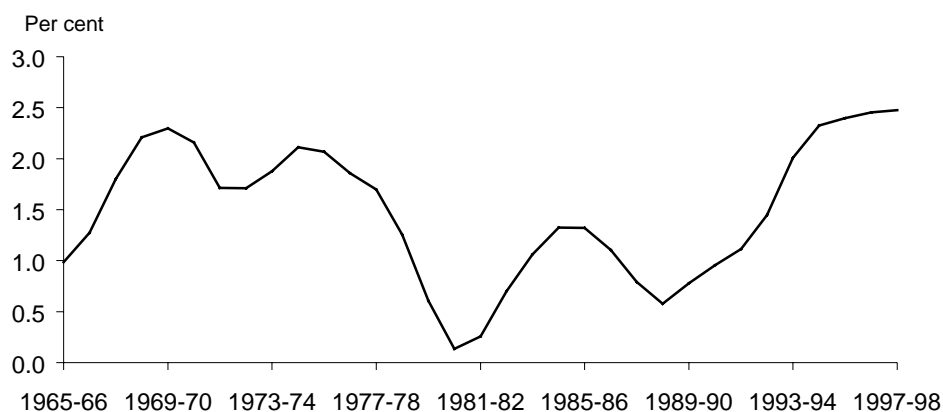
The recent surge in productivity appears to be a break from past trends, allowing Australia to pursue sustainably higher economic growth and living standards with fewer fears of inflationary pressures. Output per hour worked is estimated to be 15 per cent higher in 1997-98 than it would have been had Australia continued on its historical growth path. Put another way, the growth that would have taken 13 years on the old path has been achieved in just six years (Parham 1999, p. 22).

This improved productivity performance has not been accompanied by lower overall employment levels — labour and capital inputs, as well as output, all grew strongly in the four years to 1997-98. The proportion of the working age population in jobs has been running at or near its historical high and the unemployment rate has declined significantly since the early 1990s recession (Barnes et al 1999, p. xii).

Box 1.1 Australia's productivity performance

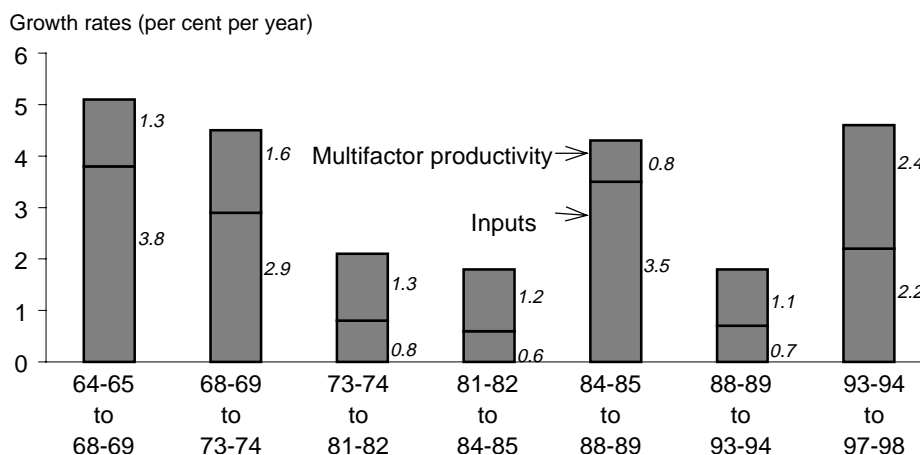
Australia's productivity performance has reached an all time high. Growth in *trend* multifactor productivity reached 2.5 per cent a year in 1996-97 and 1997-98 according to the latest ABS data. Trend productivity growth accelerated in the 1990s and has been sustained at high rates for longer than any other period on the statistical record.

Growth in market sector productivity^a 1964-65 to 1997-98



High productivity growth is contributing to the recent strong growth in Australia's output and average incomes. Growth in national output can come from greater productivity or by using more capital, labour and other resources. Productivity growth is making a greater contribution to growth in Australian output than at any time in the last 33 years.

The importance of inputs and productivity growth to growth in output^b



^a Market sector, percentage change from the previous year. Source: unpublished ABS trend multifactor productivity data. ^b To avoid spurious business cycle effects, the ABS partitioned the 33 year period into productivity cycles corresponding to intervals between productivity peaks. Source: ABS 5204.0

Australia's improved productivity performance in the 1990s stands out among high-income countries, suggesting that domestic explanations are important. Examination of industry and firm level evidence, together with the lengthening period of faster growth now observed, point to a substantial role for microeconomic reform in tapping Australia's productivity potential (PC 1999e, Parham 1999). Sound macroeconomic management has also been an important contributing factor.

The Reserve Bank (1999, p. 1) has stated that the current combination of strong economic growth and exceptionally low inflation in Australia is quite unlike the experience of the preceding 30 years — a performance even more remarkable given the Asian economic and financial crises. In pointing to important longer term influences behind the Australian economy's recent strength and resilience, the Governor of the Reserve Bank has said:

the economy has achieved improved productivity growth as a result of the microeconomic reforms of the past fifteen years. The main changes have been reductions in tariffs, privatisations, financial deregulation, competition policy and labour market reforms. Of course, businesses have also become much leaner and more adaptable as they have responded to increased competitive pressure. The key piece of evidence for this is the higher growth of multifactor productivity in Australia in this expansion compared with previous ones (Macfarlane 1999).

While many Australians are seeing the flow of benefits from appropriate macroeconomic settings and a decade or more of microeconomic reform, the reform process has inevitably involved adjustment pressures for some individuals, groups and regions.

If Australia is to meet the challenges of a more competitive and rapidly changing world — and to sustain improvements in its productivity and living standards — it must continue to build a more responsive and flexible economy. That means completing existing microeconomic reforms. It also means acting to identify and initiate the next generation of reforms, given the lags that can occur between the implementation of policy changes and receipt of the full benefits. But it also means taking care in the way reform is implemented, including accounting for any significant adjustment implications.

The inquiry and research work undertaken by the Commission over the past year bears directly on the ongoing reform agenda and adjustment issues. The remainder of this chapter brings out some key messages and insights which have implications for future reform options and associated policies.

Competition policy

When all Australian governments agreed to National Competition Policy in 1995, this was clearly with the expectation that these and associated reforms would be drivers of improved economic performance in Australia. Governments have made progress in implementing competition policy, with observable national benefits.

That said, a substantial task lies ahead in completing the agreed program of reform and in extending competitive disciplines across the economy. For example, the Commission's inquiry on progress in rail reform found that most government-owned railways still make losses or are barely viable, even after the inclusion of payments for non-commercial services. A mix of competitive contracting and franchising, privatisation and the entry of new operators is required to bring a greater commercial focus and the investment needed to secure the industry's future.

Improved community understanding of reform and its results is also necessary. The Commission's inquiry into the impact of competition policy in rural and regional Australia found that the purpose and effects of reform are not well understood. Unless addressed, this lack of understanding represents a danger to the continued implementation of nationally beneficial reforms. In particular, the scope for national competition policy processes to take account of social, regional and environmental impacts needs better explanation.

The Commission found that many people in country areas have been adversely affected over the last decade by a range of market-related developments and government policies — but there is only limited awareness of the real drivers of change. As a result, government reforms such as National Competition Policy are being blamed for most adverse economic and social results. At the same time, people also have an incomplete appreciation of the direct, let alone indirect, benefits they are receiving from reforms.

The facts are that national competition policy reforms are having diverse but mainly beneficial effects on industries and people in country Australia. While implementation of the reforms still has some way to go, country-based industries are benefiting from reduced costs of major inputs such as energy, rail transport and communications. Country households are also gaining from lower charges, most notably for long-distance phone calls, though the concessional pricing of services such as electricity and water depends on community service obligations being maintained. The available evidence on the quality of service provision — such as electricity outages and phone connect times — shows a mixed picture, but no systematic bias against people in rural areas.

Some competition policy reforms have contributed to a loss of jobs and other adjustment pressures in rural and regional communities, but other long-term sources of change are generally more important. These include substantial declines in commodity prices, introduction of new technologies, changes in lifestyles and shifts in consumer spending patterns. The contrasting fortunes of the wheat/sheep and some mining regions compared with those involved in wine growing and tourism are evidence of these broader influences.

The adverse effects from these other influences would not disappear if governments failed to proceed with competition reforms. Instead, the community, including country people, would be denied the benefits of further reforms.

Improving workplace productivity

Recent Commission studies of workplace arrangements in container stevedoring, black coal mining, meat processing and large capital city building projects, show the importance of such arrangements to enterprise performance and productivity growth. While there have been some significant improvements in recent years, further change is needed to underpin the competitiveness of those industries — and their downstream users — and the security of employment in them.

The studies identified a variety of restrictive workplace arrangements which raise costs and reduce productivity. Such arrangements can also impede the flexibility which firms need if they are to respond promptly to changing market circumstances, variable workloads and customers' needs.

Unproductive work arrangements strongly reflect incentive structures. For example, an overtime culture had long been prevalent in container stevedoring, whereas a 'short Friday' custom developed in meat processing. These contrasting practices did not arise by accident. They can be traced to the differing rewards from manipulating work flows, given the nature of those industries and their markets. This was reflected in high shift premiums and penalties for rostered shifts on the waterfront and the operation of the tally system in abattoirs.

Greater competition in product markets, as well as more appropriate labour market regulation, unlock higher workplace productivity. For example:

- Increased competition among suppliers in the international coal market has focused attention on work arrangements which unnecessarily restrict productivity as the major means of improving the industry's competitiveness.

-
- Greater competition, both internationally and domestically, is the major factor driving the move away from highly prescriptive tally systems in enterprise agreements in the meat processing industry.
 - The severe downturn in building activity in the early 1990s emboldened clients to move to fixed-price contracts for large capital city building projects. These in turn have been one of the major factors leading to the reduction in delays caused by inclement weather and site-specific disputes and the completion of projects on time.

There has been some progress in achieving more productive work arrangements in the four sectors studied, but it has been uneven. This can be attributed to variability in competitive pressures as well as to the remaining influence of mindsets developed under a centralised and adversarial industrial relations framework. For example, limited competition between container stevedores, together with a 'closed shop' for stevedoring employees, have made the process of unwinding inflexible and prescriptive work arrangements on the waterfront both difficult and protracted.

There is considerable scope for managers and workers to improve workplace productivity, including through better use of the increased flexibilities provided by the Workplace Relations Act. For instance, the Commission found that there were still many productivity-restricting work arrangements which raised unit labour costs in Australian black coal mines that could be addressed within the existing regulatory framework.

However, the Commission's four studies also identified aspects of workplace legislation where options for greater flexibility should be explored so as to facilitate further productivity-enhancing outcomes. These include the range of allowable matters in awards, sanctions against unprotected industrial action, choice in union membership and the regulation of agreement making.

Industry assistance

Demands for industry-specific assistance measures — whether in the form of protection against imports or special investment incentives — need careful scrutiny to ensure that broader community interests are served. Calls for retaliatory action against the trade barriers of other countries, or for linking reductions in assistance for Australian industries to progress by other countries, should be subject to this same test.

The adverse effects that tariffs and other forms of selective industry assistance have had on industry costs and productivity are now generally recognised, and Australia

has made significant progress over the past decade or so in reducing such measures. For example:

- The average effective rate of assistance to the manufacturing sector is now around 6 per cent compared with 19 per cent in 1987-88, the year before the phased general tariff reduction programs commenced.
- As the Commission's latest estimates show, rates of assistance to most agricultural industries are also low — although there can be substantial year to year variation (PC 1999f). Assistance arrangements for highly protected agricultural activities (including tobacco and sugar) are being unwound, and farmgate support for dairying will be substantially transformed once Victoria deregulates its dairy industry.

Some argue that Australia has rushed headlong into tariff reform to such an extent that we now 'lead the pack' and should therefore delay further reductions until other nations catch up. Although recent comparisons do show Australia to be among the group of OECD countries with the lowest tariffs and the least pervasive use of non-tariff barriers, most other countries liberalised their tariff barriers much earlier (OECD 1999). More importantly, decisions about Australia's remaining assistance measures need to be informed by analysis of their *domestic* impacts, not by reference to international rankings.

In the traditional area of border protection, a few remaining pockets of high assistance stand out — notably passenger motor vehicles and textiles, clothing and footwear. The tariffs applying to the products of other industries, though low, also continue to be a cost impost on user industries. The Government has accordingly announced that it will ask the Commission to examine the benefits and costs of reducing tariffs of 5 per cent or less. In advance of that inquiry, the Government has announced the removal from 1 November 1999 of 400 'nuisance' tariffs on imported goods that are also not made in Australia.

As the general level of tariff protection has fallen, the significance of other forms of industry assistance — antidumping and emergency protection measures, some quarantine restrictions, firm-specific investment incentives and other budgetary support — loom larger. Because these measures have consequences for the economy beyond the industries concerned — including the signal they provide to other producers to seek similar preferment — recent developments in the provision of such administered assistance need to be monitored closely.

Internationally, Australia is a major user of antidumping and countervailing measures against imports. Significant changes to antidumping procedures — involving abolition of the Anti-Dumping Authority, implementation of a faster, single-stage investigation, and a revised review and appeal mechanism — became effective in July 1998. The potential for the antidumping system to be used as a

mechanism for industry protection means that rigorous and transparent decision-making processes are paramount. The effects of recent institutional and procedural changes thus warrant close examination in the impending legislation review required under the Competition Principles Agreement.

Industry pressure for increased protection against pigmeat imports saw the Commission undertake Australia's first 'safeguards' inquiry under GATT/WTO rules since 1984. The Commission found that a short period of additional tariff assistance — initially set at 10 per cent, phasing to 5 per cent after one year and to zero after two years — could be justified under the WTO's narrow safeguards criteria. Nevertheless, it gave reasons as to why adjustment assistance was a better option.

The Government's acceptance of the Commission's reasoning was a timely reaffirmation that adjustment, not protection, is the effective path to world-competitive industries. It is regrettable that the US decision to restrict lamb imports was not influenced by a similar logic. Having taken its pigmeat decision, Australia is well placed to call for agricultural protectionism to be addressed seriously in the upcoming WTO Round of trade negotiations.

The Government began to provide firm-specific assistance under its Strategic Investment Incentives program this year. It committed \$40 million to Visy Industries' pulp and paper mill at Tumut (of which \$15 million comprises an additional investment incentive) and has offered more than \$100 million to Comalco to expand an alumina refinery in Gladstone. The Government has indicated its support for the principles enunciated by the Commission to minimise the economic risks of such assistance (IC 1998). Nevertheless, lack of transparency in how the selection criteria are being applied makes it difficult to assess the anticipated net benefits for the community of the subsidies offered thus far (PC 1999f).

Innovation plays a key role in productivity growth and is an area in which carefully designed government programs can improve on market outcomes. For example, the R&D tax concession has helped to address what otherwise would be underinvestment in research by Australian industry. That said, in a report released this year, the Commission found that the design of the tax concession was not as effective as it could be in stimulating genuinely new R&D (IC 1998). The Commission suggested ways of improving the tax concession, including by targeting it to incremental R&D. This could also provide scope to raise the rate of assistance while decreasing expenditure. The Government has expressed concerns about potential administrative complexities, but the Commission sees benefit in a more detailed examination in the context of the proposed Innovation Summit next February.

Addressing adjustment and social concerns

Reforms which make the Australian economy more productive and adaptable in the face of change can, in themselves, cause adjustment problems for some members of the community. Governments can assist by removing impediments which make it more difficult for people to adjust and through provision of other programs to help them cope with change. If this is handled well, unnecessary transitional costs can be reduced and support for the reform process strengthened.

As the proceedings of the Commission's workshop on structural adjustment policy issues show, dealing with the adjustment and social consequences of change raises many complex conceptual and practical issues (PC 1999b). This demonstrates the importance of processes and institutions which can generate the best possible information for governments on which to base policy choices and to help them explain the basis for those choices to the community.

Policy makers not only need information on the prospective benefits of reform. They also require information and analysis to identify any adverse consequences, to assess the varying claims about adjustment which often accompany reform proposals, and to put the likely adjustment consequences into perspective. The unpredictable nature of adjustment processes in a dynamic economy means that information can never be perfect. But early analysis can help to ensure that individual reforms are implemented in ways which ease adjustment pressures and to determine whether prevailing social safety nets are sufficient or whether other adjustment measures are required. Adjustment pressures and policies are the subject of a major stream of research within the Commission.

The importance of information on the social and economic impacts of policy choices has been demonstrated in the Commission's inquiry on Australia's gambling industries. The Commission found that decisions in the 1990s to increase significantly the range and accessibility of gambling opportunities were often taken without adequate information and advice about the potential social and economic impacts. Community consultation, especially at the local level, has also been deficient.

The Commission's work on service provision — now in its sixth year — continues to shed light on the efficiency *and* effectiveness with which social infrastructure services are being provided in Australia. Because of the importance of these services, both to Australia's economic performance and to community wellbeing, some of the steps needed to ensure better outcomes are discussed in chapter 2.



2 Improving Australia's social infrastructure services

Seeking ways to improve the efficiency and effectiveness of social infrastructure services should be a priority for all Australian governments. Governments typically have been the major funders, providers and regulators of these services, but the nature and extent of government involvement are being re-evaluated to see whether social and economic outcomes can be improved. The coordinated provision of better information on the performance of Australia's social infrastructure services is assisting in this task. Market-based incentives have a bigger role to play in guiding resource allocation and achieving quality outcomes, but care is needed in determining where and how they are introduced.

Why performance matters

The performance of Australia's public and private social infrastructure services — its education, health and justice systems and community services such as aged care — has a major influence on the wellbeing of Australians and on the productivity of the economy as a whole.

Australians benefit from good performance because they all use social infrastructure services at various times in their lives — particularly schools and medical services. People are not only concerned about good outcomes for themselves and their families, but also achieving the broader community purposes of such services. These include high standards of public health (such as the control of infectious diseases) and the development of citizenship skills through schooling.

Effective and efficient social infrastructure is central to the pursuit of equity and access objectives and the provision of a basic standard of living.

- Housing assistance, aged care services, basic health care and child protection form important components of society's safety net for the vulnerable and disadvantaged.
- Access to education and training aims to provide improved lifetime opportunities across all sections of society.

-
- Taxpayer funding of health, education and public housing services has made the distribution of income more equal (Harding 1995).

Apart from their direct effect on people's welfare, the performance of these services has an important bearing on productivity and economic growth, and hence the living standards of Australians.

- Health and education services, for example, underpin the productivity of the workforce and are therefore essential to making the best use of Australia's human potential. Education and training develop the workplace skills people need to adjust and prosper in a rapidly changing world.
- The community services sector has an important role in helping individuals adversely affected by change. The provision of an adequate social safety net can ameliorate adverse impacts associated with economic reform. Community support for reform is also more likely if there is fair treatment of those adversely affected.
- An effective justice system underpins confidence in negotiated contracts, protects property rights and upholds the rule of law — all of which are fundamental to the functioning of a modern market economy as well as a civil society.
- Greater efficiency and effectiveness in the funding, provision and use of publicly funded social infrastructure can lower the burden on taxpayers or, by contributing to public sector saving, assist Australia's investment and growth performance.

The search for improved performance in social infrastructure services has been motivated partly by the demands that rising costs and increasing community expectations place on public expenditure. Funding by Australian taxpayers for the major areas of social infrastructure was about \$70 billion in 1997-98, more than one third of all government expenditure and equivalent to almost 13 per cent of GDP. As a large and growing sector, the potential economic payoffs to even small improvements in the performance of social infrastructure services are significant (box 2.1).

Governments are accordingly looking to redefine their roles and concentrate on what they do best in order to improve the performance of social infrastructure services. As users of taxpayer funds and purchasers of services, for example, they are increasingly seeking to obtain better 'value for money' by contracting with private and not-for-profit providers, rather than supplying services themselves. And there is an ongoing debate as to whether people's ability and willingness to pay

Box 2.1 **Australia's social infrastructure services are used widely**

Education

- Around 2.2 million students were enrolled in government primary and secondary schools in 1997 and 0.9 million in non-government schools. Almost 1.5 million people undertook publicly-funded vocational education programs and 659 000 students were enrolled in university courses in 1997. Governments funded 85 per cent of the \$30 billion spent on education in 1997-98.

Health

- More than 3.6 million patients were admitted to 704 acute care public hospitals in 1996-97. This is equivalent to almost one in five Australians. There were also 32 million treatments not requiring admission. On average, Australians consult General Practitioners five and a half times a year.
- Governments funded an estimated \$33 billion (69 per cent) of health services expenditure in 1997-98, with the remainder being funded principally by individuals and insurers (health, workers compensation and compulsory motor vehicle third-party).

Justice

- Approximately 2.7 million matters were lodged with courts in 1997-98, of which 773 500 were civil matters and 1.8 million were criminal matters. On average, 18 344 people were held daily in Australian corrective facilities during 1997-98.

Emergency management

- Fire services responded to more than 549 200 fires and other primary incidents across Australia in 1997-98, while ambulance services attended more than 1.8 million cases nationally.

Community services

- Governments provided nearly three quarters of all funding for community services. Nearly six million contacts sought information, advice and referral in the area of personal and social support in 1995-96. Approximately 103 000 children were provided each day with centre-based long day care, while a further 97 000 benefited from family day care, and before and after school care. Statutory protection and placement services handled some 80 000 cases during the year.
- Almost 140 000 residential and respite care places (nursing homes and hostels) were available for aged persons in 1997-98. This is equivalent to places for almost one in 11 persons aged 70 years or more.

Public and community housing

- About 344 000 Australian households lived in public rental accommodation and 32 000 households in community housing arrangements in 1996. These housing arrangements covered approximately 5.8 per cent of all households.

Sources: SCRCSSP (1999a), AIHW (1999), ABS 1301.0 and ABS 5510.0.

should play a greater role in decisions about the level and type of services provided, with taxpayer funding targeted more at the poorest and most disadvantaged groups in the community.

Greater efficiency and effectiveness can also mean increases in the level and quality of services provided. In the health sector, for example, concerns extend beyond the cost of a stay in hospital to include the quality and appropriateness of patient care and public accessibility to hospital services. Are correct diagnoses being made, right treatments applied and misadventures minimised? Is the length of stay too short or excessive? Are medical services located where they are needed most? Are waiting times for admission acceptable?

The performance of social infrastructure services assumes even greater importance given that the average age of Australia's population is increasing. A major policy challenge is to determine whether existing institutional arrangements are structured to cope with an ageing population and to ensure that resource decisions are responsive to changing demands — for example, declining future demand for child care places but a growing need for home care support and investment in nursing homes. It is also clear that the capacity of the community to provide health care, community services and income support to an ageing population will depend on the future productivity of the economy as a whole. There is an emerging consensus that, while alarm about the consequences of population ageing in Australia is misplaced, they will require effective management (see the papers by Johnson, Creedy, and Richardson and Robertson in PC/MIAESR 1999).

Shortcomings have been recognised

Shortcomings in the way social infrastructure services are produced and delivered, and unsatisfactory outcomes for users, have demanded increased policy attention. For example:

- Literacy assessments undertaken by the Australian Council for Educational Research in 1996 showed that some 30 per cent of school children in Years 3 and 5 fell short of agreed standards. Students from low socio-economic backgrounds fared worst, with the proportion not achieving accepted standards reaching more than 50 per cent by Year 5 (Masters and Forster 1997, p. 15). Forty per cent of 15 to 24 year olds face difficulties in using bus timetables, ticket ordering forms and other printed materials commonly encountered in daily life and at work (ABS 1997).
- Australian governments have acknowledged that a major weakness in the healthcare system is its focus on providers and programs, rather than on people and outcomes. The capacity to meet people's health and related needs is limited

when that requires coordination across individual programs and/or levels of government (COAG 1996). It has been estimated that the chronically ill (who form around 10 per cent of the population) use around 50 per cent of health care resources. Yet it is the same group, with multiple and complex needs, who have the greatest difficulty in getting help from mainstream programs designed to meet single needs (Paterson 1996).

- An EPAC Task Force (1996) found that the complexity of the existing child care system was not wholly consistent with the efficient and equitable delivery of child care services. Significant administrative costs for parents, providers and government alike, and a range of programs with different eligibility conditions, resulted in some families doing well, while others received little assistance, without good reason.
- An Industry Commission (1993) inquiry confirmed that the provision of public housing can be a cost-effective way of meeting government housing objectives. However, it found that some low-income groups were poorly represented in public housing, many people in need were not being assisted and there were inequities in the level of assistance for people in public and private tenure and within public housing. On average, the subsidy provided to private low-income tenants was estimated at around \$1600 per year in the mid-1990s compared with a subsidy of \$4000 per year for public housing tenants (COAG 1996).
- The Productivity Commission (1999a, p. 39) noted that waiting periods for entry to residential aged care for approved care recipients had nearly doubled in the year to 1997-98 and, while inequities in access to aged care places identified as far back as 1986 had been reduced, rural and remote areas remain underserved.

Evidence of inadequate outcomes and escalating costs have led governments to focus on how to improve the efficiency and effectiveness of publicly funded social infrastructure services. Initially, the effort to obtain value for money in service delivery was pursued through funding and administrative changes. More recently, though, Australian governments:

- have begun to develop more extensive performance measurement and benchmarking as a spur to higher productivity and better outcomes for users — the dearth of nationally comparable performance data has inhibited assessment of the effectiveness and efficiency with which social services are being provided; and
- started to look at ways of improving performance by changing the incentives facing service providers and users and, in particular, exploring the appropriate role of market-based approaches and regulation.

The contribution of performance measurement and benchmarking

Australian governments established the Review of Commonwealth/State Service Provision in 1993 to develop and publish objective and nationally consistent data on the performance of key social services funded and provided by government (box 2.2). The aim was to provide information to enable comparisons of performance and different approaches across jurisdictions, and thereby facilitate well-informed judgments about performance and resourcing levels and assist sound public policy formulation.

The publication of performance indicators and the benchmarking of performance which they enable:

- make the performance of social services more transparent, strengthen accountability for the achievement of policy objectives and permit the monitoring of improvements over time;
- aid assessment of how well governments are meeting community needs and at what cost; and
- assist governments and agencies to learn from the experience of the better performers — a catalyst for improving the effectiveness and efficiency of services which are not normally subject to direct competitive pressures.

Little comparative performance information was available when the Review began its task. Significant progress has been made in filling this information gap over the **four published reports on government services and a range of case studies on the implementation of selected reforms**. It has not been easy — services and their objectives are often complex, indicators can be difficult to identify and measure, and variations in results difficult to interpret. As a result of this work, however, a lot more is known today than six years ago about the provision of these important services.

For each category of social infrastructure, the Review shows performance variations across and within jurisdictions which raise questions about performance, resourcing levels and policy options. For example, why should the unit cost of vocational education be more variable across States than the unit costs of schools? The unit cost of vocational education is one third higher in New South Wales and Queensland than in Victoria, whereas government secondary school costs are about the same. This variability might reflect different scale or dispersion effects for vocational education than schools, different mixes of costly and inexpensive courses, quality or efficiency. Yet Victoria, which has the lowest recurrent unit costs for vocational education and training in Australia, maintains the highest overall employer satisfaction with providers (SCRCSSP 1999a, pp. 32, 190).

A distinguishing feature of the Review’s work has been to help focus on what government services actually achieve — not just funding levels and the number of recipients. It has been concerned, therefore, with the quality of outcomes as much as with the quantities of inputs and outputs. For example, it has looked at prisoner rehabilitation, escape rates and deaths in custody, as well as cost per prisoner and the number of prisoners detained.

The Review is reinforcing government efforts to bring greater transparency to the provision of social infrastructure services — including by specifying policy goals and priorities, clarifying responsibilities, identifying resources used and monitoring

Box 2.2 Review of Commonwealth/State Service Provision

The reporting process is managed by a Steering Committee, with the Productivity Commission providing an independent chair and secretariat services. The Review’s progress relies on a cooperative effort by Australian governments. It is informed by expert working groups comprising members from the relevant line agencies in each jurisdiction and also draws on other expert agencies such as the Australian Institute of Health and Welfare.

The reporting framework recognises the multiple objectives of government services and that the relative priorities given to each of these objectives may differ across jurisdictions. The framework encompasses the *effectiveness* with which a service achieves its desired outcomes — including access and equity considerations, appropriateness and quality — as well as the *efficiency* with which resources are used in producing the services. Twelve service areas are now monitored:

- | | |
|------------------------|---|
| Education and training | <ul style="list-style-type: none">• School education• Vocational education and training |
| Health | <ul style="list-style-type: none">• Public acute care hospitals, general practitioners, breast cancer control and mental health |
| Community services | <ul style="list-style-type: none">• Aged care• Disability services• Children’s services• Protection and support services |
| Emergency services | <ul style="list-style-type: none">• Emergency management |
| Justice | <ul style="list-style-type: none">• Police• Court administration• Corrective services |
| Housing | <ul style="list-style-type: none">• Public housing, community housing and rent assistance |

whether program objectives are being met. This helps to make the tradeoffs between government objectives more explicit — such as choosing whether to improve the average level of service or to target services better to those most in need.

The enhanced transparency brought about by the Review has also facilitated more informed public debate about the appropriateness of different objectives and a greater focus on the effectiveness and efficiency of the service outputs delivered or purchased. For example, the 1999 report highlighted that the ACT is the only jurisdiction which has increased its number of schools while, at the same time, losing students, and that it has among the highest cost per student. This prompted debate in the ACT about the tradeoffs of having many smaller schools versus fewer larger schools. The broader curriculum choices available in larger schools, impacts on community participation, and additional transport costs in a more consolidated system were recognised as among the factors to be taken into account in deciding school resourcing policy.

While the Review is assisting government agencies in all jurisdictions to identify better ways of delivering services to the community, further cooperative efforts are required to improve the timeliness, quality and coverage of the data. For example:

- Progress has been made on reporting at the national level on social development outcomes from schooling (SCRCSSP 1999a, pp. 71–4). Yet, to date, national learning outcomes data have not been available. It was only in August 1999 that New South Wales, Victoria, Queensland, South Australia and the ACT agreed to adopt nationally comparable literacy and numeracy testing.
- The Review has made some progress in identifying access by Aboriginal and Torres Strait Islander people to mainstream services, but information is lacking on accessibility for other target groups, including those in rural and remote locations.
- There are not yet any nationally comparable data on the quality of aged care services and the efficiency of community services.
- A better understanding of the linkages between different services and ways of delivering services is important if outcomes are to be improved.
 - The Review has moved towards a more holistic assessment of health services. This is in order to understand better the interactions between hospitals, general practitioners and other health professionals in the management of illnesses and the efficacy of prevention/early detection versus intervention strategies in, say, the control of breast cancer.
 - It is recognised that interrelationships within and between other service areas should be explored. Within the justice system, for example, there is a need to understand better the interactions between the police, courts and corrective

services. Better information on the linkages between the health and justice systems could help to clarify the relative responsibilities and funding for services to drug addicts.

Continued development of performance measurement and benchmarking will further inform and drive policy change. However, achieving improvements in the performance of social infrastructure services also requires much more work in evaluating incentive structures for providers, pricing and access policies for users and regulatory performance by governments and a greater understanding of the ramifications of different policy options.

Incentives for better performance

Given the access and equity objectives attached to social infrastructure services, there has been a tendency to argue that these services should be treated differently from ‘normal’ goods and services. Some assert that it is inappropriate to apply economic concepts such as productivity, incentives and competition to service delivery.

However, in order to achieve better outcomes for consumers and increase the capacity to help the disadvantaged, particular attention must be paid to incentives and institutional arrangements, as well as resourcing, in these fields. There is an array of evidence that incentives and institutional arrangements matter in the design of good social programs, as they do in other areas of activity (box 2.3).

Clearly though, education, health and other social infrastructure services have complex equity and efficiency dimensions. Changes to incentive structures to improve performance, therefore, need to be handled carefully. It is a case of determining whether, where and how competition, greater choice and other market-based incentives can be applied effectively to improve outcomes. For example, in its recent review of nursing home subsidies, the Commission emphasised that equity of access to quality aged care must be the main criterion for assessing alternative subsidy regimes. Its recommendations for changes to existing funding arrangements, however, recognised the need to encourage efficient provision (and deter poor management and staffing practices), encourage diversity and choice wherever possible, avoid unnecessary administrative costs and promote transparency.

A number of inquiries — including those by the Industry Commission into charities and competitive tendering and contracting — have also highlighted the particular importance of good implementation to improved social and economic outcomes.

There are some basic questions that policy makers need to ask as a guide to developing better incentive structures:

- Are roles, responsibilities and desired outcomes clear?
- How can governments further shift the focus in service provision away from service providers towards the services which best meet people's diverse needs?

Box 2.3 Incentives matter in social infrastructure

- The Industry Commission's inquiry into *private health insurance* found that one of the reasons for rising costs of insurance and the decline in private health fund membership was the government imposed constraint that insurers charge the same premium regardless of length of membership (IC 1997a). This provided an incentive for 'hit and run' behaviour, and 'adverse selection' problems, with good risks leaving private health insurance and bad risks coming and staying.
- In 1993 in-patient services in Victorian *hospitals* began to be casemix funded — on the basis of the number and medical needs of the patients treated — rather than by block grants based on historical costs. This has led to increased activity, reduced costs per separation and reduced waiting times, with no evidence that the quality of care has changed (Health Services Policy Review 1999, pp. 19–21).
- An IPART review of NSW *Health* pointed to inefficiencies arising from the demarcation of funding responsibilities, whereby the States are responsible for funding public hospitals, whilst the Commonwealth funds general practitioners, specialists, doctors in private hospitals, pharmaceuticals and nursing homes.
 - One result of the incentives to shift costs between jurisdictions is poor coordination of services. For example, IPART (1999, p. 31) noted that about one third of rural hospital beds, and 10 per cent of acute hospital beds State-wide, have been occupied by nursing home-type patients. This has exacerbated hospital waiting times, required costly expansion of hospital facilities in urban areas and delayed rationalisation of beds in rural areas.
- The Industry Commission inquiry into *public housing* found that the more generous subsidies provided to public housing tenants than to low income households using the private rental market, discourage those in public housing from moving to locations which may offer better employment prospects.
 - Another finding was that the unclear delineation of responsibilities arising from intergovernmental funding arrangements meant that Aboriginal and Torres Strait Islander housing suffered from overcrowding and poor maintenance, and failed to meet cultural needs (IC 1993).
- The West Review (1998) of *higher education* noted that, with the largest single element of their budgets still centrally determined, universities could not effectively respond to students' needs and demographic movements. The current funding framework also provides institutions with skewed incentives to invest time and energy in research, relative to achieving excellence in teaching.

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- Do clients have the widest feasible choice over the location, level, mix and quality of services which best suit their needs, and are client needs appropriately signalled to providers and funders?
 - Are coordination arrangements in place across programs and governments to ensure that the range of needs of target groups are met?
 - Is there a role for user contributions and means testing to promote appropriate levels of consumption while still achieving equity objectives?
 - Is there scope to introduce stronger disciplines on performance through tendering the delivery of services and competitive funding arrangements, while maintaining the desired quality of services?
 - Are monitoring arrangements effective in gauging user views on service quality and keeping governments and providers accountable for their performance?

Improving the performance of Australia's social infrastructure services will arguably be more difficult than it was for government business enterprises and other areas which absorbed so much attention in the 1980s and 1990s. Access and equity issues loom larger and the social sensitivities are greater. In the Commission's view, open and consultative public inquiries assist governments and the community to work their way through the complex issues and to develop appropriate courses of action. Given their size and impact on social and economic outcomes, Australia's education, training and healthcare systems are priorities.



3 Commission activities

During 1998-99, its first full year of operation, the Commission made special efforts to enhance its consultative processes and actively sought feedback on its work, so as to contribute better to public policy making and community understanding of policy issues. The year has also seen new challenges, with the Commission asked to apply rigorous analysis to policy areas — such as gambling and broadcasting — which have complex social and economic dimensions.

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

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 from a community-wide perspective and covers many contentious and complex structural policy issues where the potential long-term payoff for the nation from better informed policy making is high. The breadth of the Commission's work is indicated by its publications in 1998-99 (box 3.1).

One of the Commission's distinguishing characteristics is its open, consultative processes and the scope these provide for the public to participate in and scrutinise its work. These processes are integral to its operation. The public hearing process, consultations with individuals and organisations, public access to the submissions made to inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations.

A feature of the past year has been increased efforts and innovation aimed at enhancing the reach and transparency of Commission processes.

Box 3.1 Commission publications in 1998-99

Government-commissioned projects

Australian black coal industry	Nursing home subsidies
International air services	Battery hen eggs
Pig and pigmeat industries: safeguard action	Meat processing work arrangements
Implementation of ESD	

Performance reporting

Report on government services: education, health, justice, emergency management, community services, housing	Performance of government trading enterprises 1991-92 to 1996-97
Superannuation in the costing of government services	International benchmarking of Australian telecommunications
Implementing reforms in government services	Feedback on the Government Services report

Regulation review

Guide to regulation

Competitive neutrality complaints

Counter terrorist first response services	Cost allocation and pricing
Rate of return issues	Competitive neutrality complaint mechanisms

Annual report suite of publications

Annual report 1997-98	Regulation and its review 1997-98
Trade and assistance review 1997-98	Microeconomic reform 1997-98

Conference proceedings

Microeconomic reform and productivity growth	Industry competitiveness, trade and the environment
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Submissions to other review bodies

Review of NSW Rural Assistance Act	Review of price controls on Telstra
Tasmanian dairy review	Victorian dairy review

Research reports

Aspects of structural change in Australia	The new economy? A new look at Australia's productivity performance
Australia's restrictions on trade in financial services	Design principles for small business programs and regulations
Youth wages and employment	APEC early voluntary sectoral liberalisation
Trade-related aspects of intellectual property rights	Network modelling approach to air service agreements
Minimum wages literature survey	Labour market research agenda
Feedback on waterfront benchmarking	

Enhanced public consultation

Inquiry processes

During the year the Commission sought to enhance the way in which its inquiries draw on and encourage community input, so as to generate ideas and a sound information base for policy making.

- To ensure that the views and experiences of people living and working in rural and regional communities were heard in its inquiry on the impact of competition policy reforms, the Commission undertook extensive round-table discussions in all States and Territories. It visited 75 rural and regional locations — from large regional centres such as Toowoomba, Port Augusta and Broken Hill to smaller, more isolated communities such as Port Hedland in Western Australia and Nganmariyanga in the Northern Territory. In total, informal discussions were held with around 1000 people representing the interests of private sector businesses, industry groups (covering mining, manufacturing, agriculture, tourism and other services), regional development organisations, community and environmental groups, academics and all levels of government. These discussions provided contact with a wider range of people and localities than would have been possible with the normal initial public hearings. Public hearings on the draft report were also held in major rural centres, as well as some capital cities.
- The gambling inquiry has involved extensive contact with industry, individuals and community and professional groups. The Commission used round-table discussions to tap the expertise of gambling researchers, counsellors, criminologists and academic leaders in the design and interpretation of social surveys. Group meetings with self-confessed problem gamblers also provided valuable insights from people who might not otherwise have been drawn into the inquiry process. In addition, the Commission undertook a national survey of gambling preferences, spending, attitudes and impacts, a survey of problem gamblers in counselling, and a survey of counselling agencies. Widespread and vibrant public discussion following the release of the Commission's draft report testifies to the value of these processes.
- Where inquiries face tight reporting periods which preclude the preparation of a full draft report, the Commission has begun releasing 'position papers' to provide a synthesis of key issues and an early indication of the Commission's preliminary proposals. In its inquiry into nursing home subsidies, for example, this approach was successful in stimulating valuable further input into the inquiry through the subsequent public hearings. The detailed background information, which usually would be contained in a draft report, was circulated

separately to participants and made freely available in advance of the public hearings. Position papers were also released for the inquiries on international telecommunications market regulation and international liner cargo shipping.

The Commission is utilising wider sources of expertise in inquiries where economic modelling is used to provide policy insights. One element of the package of amendments accompanying passage of the Commission's legislation is that, when formal mathematical economic modelling is used, the Commission is required to use two models, or where a single model is relied upon, to have that model assessed independently. In addition to fulfilling this statutory requirement, the Commission is taking the opportunity to hold public workshops to discuss its own modelling and model-based analysis submitted by inquiry participants. Modelling workshops conducted during the year — for the inquiries on the pig and pigmeat industries, international air services, the impact of competition policy reforms on rural and regional Australia, and progress in rail reform — provided useful peer assessments of technical merit and increased confidence in the results.

Open research procedures

Enhanced opportunities for public input to Commission studies of work arrangements have been provided. In its studies of the meat processing industry and large capital city building projects, the Commission released Issues Briefs which outlined the principal areas of interest. It also initiated 'Work-in-Progress' reports, to expose to participants the preliminary views and findings from its research and consultations and to indicate areas where additional information was being sought.

The recent practice of consulting on themes and priorities for the Commission's research program has continued. Each year, the Commission meets with a range of government departments and agencies, peak national employer bodies, community, welfare and environmental groups to discuss current and future research. Meetings are held with academics and others on an ongoing basis. The Commission also participates in collaborative projects with academic institutions. Current partners in such research include the University of Adelaide and the Australian National University on measuring impediments in international trade in services, and the Melbourne Institute of Applied Economic and Social Research, Warwick University and the Centre for Strategic Economic Studies on a range of innovation, labour market, income distribution and productivity issues.

The Commission continues to involve outside policy advisers and researchers through its conference program. As part of its supporting research program this year, the Commission conducted or co-sponsored six workshops or conferences on:

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- the linkages between industry competitiveness, trade and the environment;
 - youth wages;
 - structural adjustment policy issues;
 - modelling adjustment in labour markets;
 - privatisation, regulation and reform; and
 - the implications of the ageing of Australia's population (box 3.2).

The conferences provided an opportunity for an informed exchange of views on policy issues and development. Publication of papers and proceedings has helped to promote wider public understanding of policy issues.

Communications developments

Briefings for parliamentary committees have been useful in explaining the findings of the Commission's inquiry and research work and provided opportunities for an interchange of views. In the past year, the Commission gave such briefings on its draft reports on railways and the impact of competition policy on rural and regional Australia, its telecommunications international benchmarking study, and its regulation review work (appendix E).

Internet technology has increased the accessibility of Commission inquiry and research reports. It has also facilitated speedier and easier notification of developments in, and progress on, inquiries. The Commission is using its website

Box 3.2 Conference on population ageing

The Productivity Commission and the Melbourne Institute of Applied Economic and Social Research jointly convened a conference in March 1999 on the policy implications of the ageing of Australia's population. This cooperative venture drew together leading international and Australian researchers, practitioners and policy analysts from a variety of backgrounds — demographers, planners, health experts, actuaries and representatives of welfare organisations.

A broad range of issues to do with ageing were explored, including its effects on economic growth, government revenue and expenditure, superannuation, health, education, transport, the provision of long-term care and housing arrangements.

The conference showed the value of discussions which bring together a range of perspectives informed by social as well as economic considerations. There was a robust and fruitful debate and suggestions made for further research. The publication of proceedings should provide a valuable resource document which will stimulate ongoing debate (PC/MIAESR 1999).

increasingly to post participants' submissions, thereby increasing opportunities for earlier and less costly public scrutiny of the views and analysis being put to it. The Commission's website was visited approximately 827 000 times by external clients in 1998-99, an increase of 175 per cent over the previous year.

Feedback on the Commission's work

During the past year the Commission has been actively seeking feedback on its work, in order to improve its performance and contribution to policy making.

The Commission undertook a survey in April 1999 to assess external views and perceptions of its performance and, in particular, the quality and effectiveness of its work. More than 85 per cent of respondents considered that the Commission's work made a vital contribution to current policy issues and debates, although less than half considered that the Commission was used effectively by government (appendix B).

Respondents rated the Commission highly in terms of two of its three operating principles — the provision of independent analysis and advice, and the use of processes that are open and transparent. Around two thirds of respondents also agreed that the Commission met its third operating principle — to have overarching concern for the wellbeing of the community as a whole.

The Commission's reports were rated highly in terms of quality, clarity and as a source of reference material. Respondents were also particularly favourable about the Commission's inquiry process with respect to encouraging participation by interested parties and transparency. However, up to half of respondents were more critical of the thoroughness of questioning of participants in public forums, the ease with which participants in the public inquiry process could respond to the ideas of others and the resources needed to participate effectively in an inquiry.

The influence of the Commission's work is reflected in a wide range of recent policy developments which have drawn on its analysis and recommendations:

- The inquiry reports on international air services and the black coal industry were largely accepted by the Government. The Government also concurred with the Commission's preference for measures which promoted industry restructuring over safeguard action against pigmeat imports.
- The Australian Industrial Relations Commission, in its deliberations and decisions, has made use of Commission reports on work arrangements in the black coal and meat processing industries, and research findings on the impact of youth wages on employment.

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- On the basis of the Commission's analysis, the ACT Government concluded that there was a net public benefit in a ban on the sale of battery hen eggs in the Territory.

The impact of the Commission's work on policy debates and outcomes can extend over a number of years. For example:

- Most of the recommendations in the report by the Industry Commission (a predecessor of the Productivity Commission) into private health insurance have now been adopted by the Government. When the Government released the report in April 1997 it supported many recommendations, but said it would need time to consider further the proposal for unfunded lifetime community rating. The Government introduced a bill to enact Lifetime Health Cover in June 1999.
- In the past year the Government implemented assistance recommendations from 1996 Industry Commission reports on packaging and labelling, and machine tools and robots.

The consultative nature of the Commission's work provides it with extensive feedback on the relevance and quality of many of its projects. Much of this feedback is on the public record — for example, submissions on draft reports, position papers or work-in-progress papers, and responses to modelling workshops. As a research body, the Commission also takes note of reactions from research peers.

- The modelling for the international air services inquiry was commended by independent referees as being at the frontier of such work. Airlines are seeking to use the techniques in their business planning.
- The Commission was invited to attend an OECD workshop on international benchmarking of telecommunications because of its work in refining OECD methodology. Telecommunications businesses and regulators from member countries agreed to adopt the Commission's approach in future OECD benchmarking.

Commission inquiry and research reports, from this and previous years, are used extensively by parliamentarians in debates and questions. During the 1998-99 sittings of the Federal Parliament, 83 Members or Senators referred to 33 different Commission inquiries or reports, or to its role in policy processes. The reports on private health insurance, nursing home subsidies and youth wages figured most prominently. Commission reports were also drawn on in parliamentary committee work and in speeches to business and community groups.

One indicator of public interest in the Commission's work is the extent of media coverage. During 1998-99, 23 editorials in major metropolitan newspapers drew on the findings or recommendations in 11 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission rated an average of 65 mentions a month in the electronic media and an average of 75

mentions a month in print media. The Commission's gambling and broadcasting inquiries and the report on government services attracted significant comment.

Year in review

The Commission's goal of contributing to public policy making and community understanding of productivity issues is pursued through five major outputs. The principal developments in these activities during 1998-99 were as follows.

Government-commissioned projects

The Commission commenced or finalised a broad range of inquiries and other government-commissioned projects in 1998-99 (box 3.3). It had 11 public inquiries under way at some time during the year, including:

- providing an information report on the performance of the gambling industries and their economic and social impacts across Australia, including their impact on the retail, tourism and entertainment industries, and on Commonwealth, State and Territory budgets;
- assessing the impact of competition policy on rural and regional Australia, the influence of long-term demographic and economic factors, measures which would improve the implementation and operation of National Competition Policy and some adjustment issues;

Box 3.3 Inquiries and government-commissioned research, 1998-99

Public inquiries

Australian black coal industry	Australia's gambling industries
International air services	Broadcasting
Nursing home subsidies	Progress in rail reform
Implementation of ESD	International liner cargo shipping
International telecommunications market regulation	Impact of competition policy on rural and regional Australia
Pig and pigmeat industries: safeguard action	

Government-commissioned research

Meat processing work arrangements	Battery hen eggs
Work arrangements on large capital city building projects	Environmental performance of commercial buildings

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- reporting on economic infrastructure services such as international air services, railways, international telecommunications and liner cargo shipping;
 - investigating what more Commonwealth departments and agencies could do to implement ecologically sustainable development principles; and
 - reporting on all aspects of broadcasting covered by the Broadcasting Services Act, including free-to-air television and radio, pay television and radio, community and indigenous broadcasting, datacasting, narrowcasting and some aspects of the Internet, and regulation of Australian content and children's television, ownership and foreign investment.

In addition, the Commission conducted the final two of a series of work arrangements case studies — on the meat processing industry and large capital city building projects. Following a request from the ACT Government, the Commission also assessed the animal welfare and economic impacts of legislation to ban the production and sale of eggs produced by hens housed in battery cages.

Further information on the government-commissioned projects undertaken by the Commission and, where available, government responses to reports, is provided in appendices B and C.

Performance reporting and other services to government bodies

The Commission's work under the auspices of the Steering Committee for the Review of Commonwealth/State Service Provision is in its sixth year. The expanding scope and achievements of that work are discussed in chapter 2 and appendix B.

Other publications arising from this program in 1998-99 were a review of the performance of government trading enterprises and an international benchmarking report on Australian telecommunications services. Information on these projects is provided in appendix B.

Regulation review activities

The Office of Regulation Review (ORR), which is part of the Productivity Commission, continued its role in helping the Commonwealth Government, departments and regulatory bodies achieve better regulatory processes and outcomes. The ORR advises the Government, Commonwealth departments, regulatory agencies and statutory authorities on appropriate quality control mechanisms for the development of regulatory proposals and for the review of existing regulations. The Regulation Impact Statement (RIS) process is designed to

assist the formulation of regulation which does not impose unnecessary costs on business and the community. The ORR promotes the appropriate use of regulation through advice on best practice approaches and monitoring compliance with the Government's RIS guidelines (box 3.4)

Box 3.4 Compliance with RIS guidelines in 1998-99

The Commonwealth Government requires the preparation of a Regulation Impact Statement (RIS) — looking at costs and benefits and alternative ways of achieving desired objectives — when policy makers consider new and amended regulation which affects business or restricts competition. The Commission is required to report annually on compliance. Its 'report card' for 1998-99 shows that:

- of the 117 regulatory proposals introduced via *primary legislation*, 61 per cent were accompanied by an adequate RIS when policy approval was sought, while 89 per cent were accompanied by an adequate RIS when tabled in Parliament;
- compliance at the decision-making stage for *delegated legislation* was 88 per cent; and
- compliance with the RIS requirements for those *quasi-regulations* reported to the ORR was 86 per cent at the decision-making stage.

Overall, this represents an improved performance over that achieved in 1997-98.

A full compliance report on these and other areas of regulatory activity (including the Commonwealth's Legislative Review Program, Ministerial Councils and national standards setting bodies) and an assessment of prospects for improved compliance are provided in PC (1999g).

Competitive neutrality complaints activities

The Productivity Commission administers the Commonwealth Government's competitive neutrality complaints mechanism. Competitive neutrality requires that government businesses not have advantages (or disadvantages) over their private sector rivals simply by virtue of their public ownership.

The Competitive Neutrality Complaints Office operates within the Commission to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received six formal complaints in 1998-99, two of which — relating to counter terrorist first response services — were formally investigated. Details of its report, other complaints and action on them, and the advising and research activities of the Competitive Neutrality Complaints Office are reported in appendix B.

Supporting research and activities and annual reporting

The Commission is explicitly empowered to undertake its own research — on matters relating to industry development and productivity — to complement its other activities. It must also report annually on these matters, including assistance and regulation, and has an educative role in promoting public understanding of how productivity and the living standards of Australians can be enhanced.

Information on the Commission's supporting research publications in 1998-99 is provided in appendix D, together with a listing of the 70 presentations and conference papers given by Commissioners and staff in the year.

As noted above, the development of themes and projects for this program of supporting research benefits from wide-ranging consultation. Those consultations, and the Commission's decision to give priority to research on the impacts of microeconomic reform and to the adjustment consequences of policy changes and reform, provide the framework for its ongoing program of research (box 3.5).

Box 3.5 Supporting research themes and objectives

Following consultations with government, industry, community groups and academics, the research themes which governed the 1998-99 program of supporting research were:

- the relationship between labour market flexibility, productivity and income distribution;
- competition policy (including international trade and investment);
- the adjustment and regional consequences of economic change;
- microeconomic reform in health services and aged care; and
- microeconomic reform and the environment.

Research to enhance the Commission's use of analytic and modelling techniques was also undertaken.

External and internal consultations during the year broadly reaffirmed these areas as research priorities (PC 1999c). While themes are reviewed annually, some may continue for a number of years. Proposals for research projects in 1999-2000 will be considered against the themes and their relevance to the Commission's overarching objectives for its supporting research program of:

- contributing to understanding the impacts of microeconomic reforms on productivity and living standards; and
- gaining a better understanding of the adjustment consequences of policy changes and microeconomic reform.

Associated reporting

Staffing and management developments and issues in 1998-99 are reported in appendix A.

The audited financial statements for the Commission are contained in appendix F.

In association with this annual report, the Commission will shortly be releasing the following publications:

- *Regulation and its Review 1998-99*; and
- *Trade and Assistance Review 1998-99*.

A Corporate review

This appendix provides information on staffing and management issues and additional information in accordance with parliamentary requirements for departmental annual reports.

Role of the Commission

The Productivity Commission was formally established on 16 April 1998 following Royal Assent to the *Productivity Commission Act 1998*. As noted in chapter 3, the Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. Further information about the Commission's role is contained in that chapter and in its first annual report.

Structure

The Commission is headed by a Chairman and can comprise between four and eleven other Commissioners, who are appointed by the Governor-General for periods of up to five years. In addition, Associate Commissioners can be appointed by the Treasurer for terms of up to five years or for the duration of specific projects.

The Commission's structure and senior staff at 30 June 1999 are shown in figure A.1.

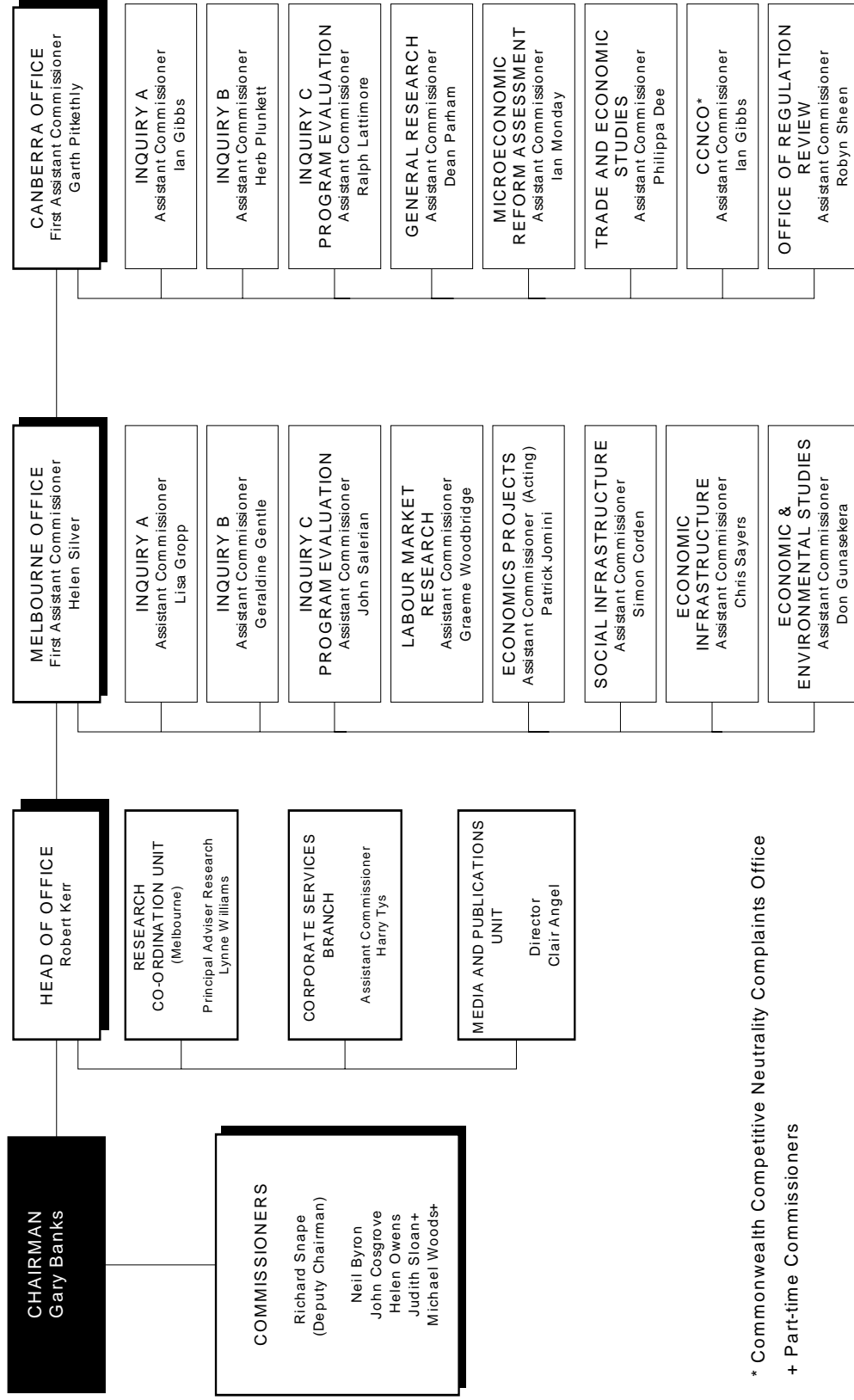
Commissioners

At 30 June 1999, in addition to the Chairman there were six Commissioners, two of whom were part-time (table A1.1 of attachment A1). Biographical information on the Commissioners can be found on the Commission's internet website and in the Commission's first annual report (PC 1998b).

No new Commissioners were appointed during 1998-99.

An existing Commissioner, Professor Richard Snape, was appointed Deputy Chairman by the Treasurer on 24 February 1999. The Deputy Chairman assists the Chairman in the exercise of his powers and the performance of his duties under the Act.

Figure A.1 Productivity Commission structure and senior staff, 30 June 1999



* Commonwealth Competitive Neutrality Complaints Office
+ Part-time Commissioners

Associate Commissioners

The Productivity Commission Act enables the Commission to draw on people with specific expertise in conducting its inquiries.

Five Associate Commissioners, appointed for the duration of particular inquiries on a part-time basis, were current during 1998-99. Details of the appointments are shown in table A1.2 of attachment A1.

Mr Ray Braithwaite was appointed part-time Associate Commissioner for the inquiry on the impact of competition policy reforms on rural and regional Australia on the basis of his knowledge of country Australia. He has extensive experience in rural industry, as a sugar farmer and a chartered accountant, as well as extensive parliamentary, public and community service.

Mr Robert Fitzgerald AM, part-time Associate Commissioner for the inquiry on Australia's gambling industries, was National President of the Australian Council of Social Service from 1993 to 1997 and has held other senior honorary positions with the NSW Catholic Commission on Employment Relations, JOBFutures Ltd and the St Vincent de Paul Society (NSW). He has also practised as a commercial and corporate solicitor and management consultant for 20 years. Subsequent to his appointment as an Associate Commissioner, Mr Fitzgerald was appointed as a Councillor on the National Competition Council and as the Community Services Commissioner in New South Wales. He brings to the inquiry considerable expertise in both commercial and social welfare matters.

Dr Derek Scrafton, part-time Associate Commissioner for the inquiry on progress in rail reform, has extensive experience in the transport industry from a public policy perspective. He is currently Adjunct Professor of Transport, Policy and Planning at the Transport Systems Centre, University of South Australia. Dr Scrafton was previously Director-General of Transport in South Australia and a Commissioner of Australian National Railways. He has participated on numerous advisory bodies, as well as the Industry Commission inquiry on urban public transport.

Mr Stuart Simson, part-time Associate Commissioner for the broadcasting inquiry, has a managerial and editorial background in media organisations. In addition to his current business interests as a developer of content and programs for the Internet and pay television, he is the current chair of the Australia China Council.

Dr Robin Stewardson was appointed part-time Associate Commissioner for the inquiry on international liner cargo shipping on the basis of his broad academic and business background. His extensive experience at BHP, where he was Chief Economist, covered amongst other things, a range of industry policy issues.

Staff

Staff numbers at 30 June increased from 195 in 1998 to 201 in 1999.

The Commission's 'natural' attrition — that is, excluding departures from end-of-contract and voluntary redundancy packages — of 10 per cent in 1998-99 was the lowest for several years. Natural attrition continues to be higher in the Melbourne office than in Canberra reflecting, in part, the different labour markets.

The Commission recruited 55 staff during the year, including six females and three males through its graduate recruitment program.

Statistical information on staffing is provided in tables A1.3 to A1.7 of attachment A1.

Key management developments

The past year was the first full year of operation since passage of the *Productivity Commission Act 1998*. The Commission took the opportunity to review, and modify as necessary, management structures in light of its new functions.

An outline of the key management structures in place at 30 June 1999 is as follows:

- The Chairman, as Chief Executive Officer, is assisted in the overall management and corporate governance of the Commission by a Management Committee which he chairs. The committee meets monthly and otherwise as required.
- Commissioners meet monthly as a group, to discuss key issues related to the Commission's extensive work program. Commission meetings, which are attended by senior staff, are also used to raise relevant management matters.
- Each functional area of the Commission provides periodic reports to Commission meetings. The specific management structures in these areas are:
 - an Inquiry Committee, in respect of government commissioned projects. The Committee is chaired by the Head of Office and reports on a six-monthly basis;
 - a Research Committee, in respect of the research program. The Committee is chaired by the Deputy Chairman, meets on a monthly basis and reports on a quarterly basis;
 - a Steering Committee for the Review of Commonwealth/State Service Provision, chaired by the Chairman of the Commission, whose work is reported on a quarterly basis;

-
- the Chairman also has a particular role in overseeing the work of the Office of Regulation Review, which provides quarterly reports on its activities; and
 - one Commissioner is designated with responsibility for competitive neutrality issues, and reports on a quarterly basis.

Management effort during the year also focused on the Commission's relationships with external clients, on staff employment matters, and on improvements in its systems and processes. Of particular note were:

- two external feedback surveys;
- an internal staff survey;
- implementation of the Certified Agreement 1998–2000; and
- continuing work on the Year 2000 compliance issue.

These and a number of other matters are covered below.

External relationships

Feedback surveys

The Commission actively sought feedback on its work during the year. In particular, it conducted two surveys of external views and perceptions of the Commission's performance. Details are provided in chapter 3 and appendix B.

Website developments

The Commission's internet website was further developed during 1998-99 to improve its usefulness to external clients. The enhancements included the addition of a 'text only' version of the home page which provides easier viewing for the visually impaired. 'Latest Developments' boxes now provide immediately accessible information on the progress of inquiries, changes to scheduling of public hearings, report release dates and other developments. Additional material — such as inquiry transcripts of hearings and all submissions (excluding confidential information) — is being made available on the site. A 'Site Search' facility, which links to the Commonwealth Government's search engine, was also added to help users find relevant information on the website more easily.

The Commission's website pages were accessed around 827 000 times by external clients during 1998-99 compared with around 300 000 times in 1997-98, indicating

that the site is rapidly becoming an important means of communication with the public. The Commission's website is located at <http://www.pc.gov.au>.

Service charters

The Commission's service charter was published on 1 May 1998 and was reviewed towards the end of 1998-99.

Given its separate functions, a service charter was also developed for the Commonwealth Competitive Neutrality Complaints Office established within the Commission. This charter is also reviewed regularly.

The Commission's service charters were developed through consultation with staff and apply to all its clients — individuals, government bodies, the Commonwealth Treasurer, internal clients and service providers. The charters are widely available, including on the Commission's website.

Performance against the charter is monitored through complaints to designated senior managers. No complaints were recorded in 1998-99.

Conflict of interest procedures

The Commission is often required to make judgments about contentious policy issues in which substantial interests can be at stake. It is important that transparent procedures are in place to avoid any potential conflicts of interest — whether real, inadvertent or perceived — which could undermine the Commission's independence.

During the year the Commission reviewed its procedures in respect of potential conflicts between the private interests and public duties of its Commissioners and staff.

The revised procedures, which build on the latest Australian Public Service guidelines, are in the process of being implemented.

Social justice and equity

The Commission's processes contribute to the Government's social justice and equity policies in a number of ways. At the broadest level, the statutory requirement for the Commission in all its work to take into account impacts on the community as a whole is intended to promote fairer outcomes.

The transparency of the public inquiry process provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. The Commission actively seeks out those who are likely to have an interest in an inquiry, so that a range of views and circumstances can be taken into account. Developments in the past year to enhance the reach and accessibility of Commission processes are discussed in chapter 3.

The Commission's Access and Equity Plan sets out the processes to be followed to provide groups with special needs the opportunity to participate in Commission activities. This Plan will be updated during 1999 to reflect the Government's *Charter of Public Service in a Culturally Diverse Society*.

Freedom of Information

The Commission received two applications for documents under the *Freedom of Information Act 1982* in 1998-99.

The first application sought research results and documentation in relation to the Staff Research Paper, *Youth Wages and Employment*. The request was received on 23 November 1998.

The second application sought documents in relation to information contained in the Commission's report, *Microeconomic Reform by Australian Governments 1997-98*, which formed part of the Commission's annual report series. The request was received on 9 February 1999.

In both cases, full access was granted within the required time.

A statement encompassing formal reporting requirements is provided in attachment A2.

Staff employment matters

Staff survey

In March 1999 the Commission undertook a survey of staff views on a range of organisational and management issues. The survey was designed to help identify areas where current practices could be improved and ways to provide a better working environment for staff. Questions were framed with a view to allowing some comparisons with previous staff surveys.

The 90 per cent response rate was an excellent outcome for a voluntary survey. A detailed examination of the survey responses, and consideration of possible courses of action, are still under way. However, as a broad indicator of staff satisfaction, almost 80 per cent of responses rated the Commission as a ‘good’ or ‘very good’ place to work — an improvement on what was still a broadly favourable response to a similar question in the previous survey in 1995.

Certified Agreement 1998–2000

The Commission’s certified agreement, negotiated with its employees in accordance with section 170LK of the *Workplace Relations Act 1996*, was approved by the Australian Industrial Relations Commission on 10 August 1998.

The main provisions of the agreement were outlined in the Commission’s 1997-98 Annual Report.

Implementation of the agreement has proceeded smoothly, assisted by a staff, union and management consultative committee established under the agreement. All but a handful of the 37 specific ‘action’ items had been implemented by 30 June 1999. The most challenging area of the agreement, and one highlighted in the survey of staff, is that relating to the Commission’s performance management scheme. The operation of the system is being monitored to ensure it meets its objectives.

Australian Workplace Agreements

Following the negotiation of Australian Workplace Agreements with most Senior Executive Service staff, a number of agreements were negotiated with staff below this level.

Occupational health and safety (OH&S)

Significant effort was maintained during the year to improve the Commission’s OH&S performance. A clear indication of the effectiveness of these efforts over a number of years is the decline in the Commission’s insurance premium rate for workers compensation. The rate for 1998-99 was 0.55 per cent of salary expenditure, compared with 0.77 per cent in the preceding year, and the average premium of 1.0 per cent for the relevant equivalent pool of Australian Public Service agencies.

Specific OH&S Committee initiatives for the year included team-training programs for staff in the Melbourne office, and a number of out-of-hours activities such as

yoga and meditation. Touch typing classes were also offered to staff as an OH&S prevention initiative.

Ergonomists continue to provide a preventative strategy for early identification of potential workplace injuries. All new staff receive an ergonomic assessment and training as part of their induction process. An eyesight testing program related to the use of screen-based equipment continues, and a flu vaccination program for staff was conducted for a second year.

The OH&S Committee met four times during 1998-99 and dealt with a variety of topics including a revision of the OH&S Agreement, the development of the OH&S annual program and team training programs. Each meeting received reports on the Employee Assistance Program, workplace hazard inspections and accident, incident and injury statistics.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

Employee Assistance Program

Contracts were renewed during the year with Occupational Services of Australia in Melbourne and Industrial Program Services in Canberra for Employee Assistance Program services. The program provides independent, confidential and professional counselling, consultation and training assistance to staff and their immediate families who seek help with work-related or personal problems.

The utilisation rate for the Melbourne office decreased from 19 people in 1997-98 to 10 people in 1998-99. In the Canberra office, it increased from three to six people.

Training and development

Recorded expenditure on training and development in 1998-99 fell to 2.1 per cent of the annual salary budget, compared with 2.5 per cent in the previous year. One hundred and eighty one employees undertook a total of 681 days of training and development in 1998-99. These measures, of course, do not include the extensive on-the-job training within the Commission or attendance at the regular internal seminar programs.

Training and development needs are identified mainly at the individual level. They focus on a mixture of professional, technical and managerial objectives and include training of a general nature covering areas such as computer, presentational and

technical skills, and attendance at external conferences. Induction of new starters, including graduates, continued to feature prominently in the Commission's training and development program.

Other development opportunities are provided by the Commission under its Studies Assistance Scheme for part-time students and its Post-Graduate Study Awards Scheme. Twenty seven staff participated in the Studies Assistance Scheme during 1998-99 and the associated financial assistance totalled \$6635. Two employees were granted post-graduate study awards to undertake full-time study at a total cost of \$42 000.

Performance appraisal and pay

Following certification of the Commission's *Certified Agreement 1998-2000*, all staff are required to have performance agreements and to participate in six monthly performance appraisals. Ratings achieved have a bearing on salary increases.

In addition, Senior Executive Service (SES) and Staff Levels 3/4 employees participate in a performance pay scheme. Bonuses of up to 13 per cent of salary for SES and 12 per cent for Staff Levels 3/4 are achievable. The amount of bonus paid depends on the rating achieved on a 5 point scale, where a rating of 5 provides the highest bonus.

Performance ratings for eligible employees in 1998-99 were:

- for the SES — 10 per cent were rated at 5, 47 per cent at 4 and 43 per cent at 3; and
- for Staff Levels 3/4 — 2 per cent were rated at 5, 36 per cent at 4, 58 per cent at 3 and 4 per cent at 2.

A higher proportion of remuneration is available as performance bonuses for the SES than for Staff Levels 3/4. For the SES, 18 eligible staff received bonuses totalling \$174 000, which averaged around 9 per cent of salary. For Staff Levels 3/4, 68 eligible staff received bonuses totalling \$316 000 which averaged 6.5 per cent of salary.

Workplace diversity

The Commission fosters a culture which supports staff to achieve their full potential and values staff diversity. It does this through the Commission's equity and diversity strategic plan, the designation of a Senior Executive with Responsibility

for Workplace Diversity, and training and support for harassment contact officers. The Commission's strategic plan is to be reviewed next year.

Particular activities during the year included the development of a draft of a disability action plan and a policy to address any workplace harassment. Both initiatives include improved indicators to assist in monitoring the effectiveness of the planned approaches. Two new harassment contact officers underwent training during the year.

Aspects of the Commission's Certified Agreement, designed to improve the balance between work and family responsibilities, were also implemented during the year. These included the introduction of greater flexibility in hours of work and leave arrangements, and the further development of the home-based work policy.

The Commission obtains feedback from staff on workplace diversity matters through a number of means, including from staff exit interviews and questionnaires and periodic staff surveys. Such feedback suggests that the approaches are producing positive results.

Commission employees at 30 June 1999, classified to designated equal employment opportunity groups, and comparisons with Australian Public Service targets for 2000 are shown in tables A1.8 and A1.9 of attachment A1, respectively. The Commission has already achieved the targets set in a number of areas.

Employee consultation

The Commission uses a range of measures to enable employee participation in policy formulation and to improve the work environment. These include staff representation on committees, open consultation on important issues, and a variety of means of communicating internally. The Productivity Commission Consultative Committee, which was established on 26 October 1998 following the implementation of the Commission's Certified Agreement, meets at least quarterly. The Chairman and senior management hold regular meetings for all staff. No industrial issues affecting Commission staff arose during 1998-99.

Systems and processes

Substantial work was undertaken during the year to implement improvements in systems and processes within the Commission.

Management information systems

An evaluation of the Commission's human resources management and information system was undertaken during the year, prompted in part by the Department of Finance and Administration's decision to cease providing payroll services to agencies. Following a cost-benefit analysis, including an assessment of in-house versus 'bureau' delivery, the Commission decided on a bureau service to be provided by Frontier Software. The bureau service covers not only payroll services, but also the software component of all human resources services.

Further implementation work occurred on the Commission's new financial management and information system (Finance One) and library software system (FIRST). Both systems have improved internal efficiencies. Enhancements to Finance One enable the Commission to be fully compliant with the Government's accrual-based budgeting and accounting requirements.

Information technology

The Commission continues to benefit from the systematic review and standardisation of information technology. The year's activities have included the Commission-wide upgrade of desktop hardware and software to cater for 32-bit processing, decommissioning of mini-computers used for modelling and econometrics processing, and adoption of compatible software for communications.

The result of these activities is a more stable information technology infrastructure, involving enhanced compatibility with outside organisations. There has been an increase in the dependence of the organisation on technology for communications, via email and video conferencing, and information management.

The Commission's three-year Information Technology Strategic Plan concluded on 30 June 1999. New strategies are now being developed.

Year 2000 compliance

Eighty five per cent of the Commission's business-critical systems were Year 2000 compliant as at 30 June 1999. Compliance of the remaining 15 per cent was dependent on completion of the final stages of the desktop upgrade, which occurred early in September 1999. As such, all the Commission's business-critical systems are Year 2000 compliant.

Chief Executive Instructions

In accordance with the *Financial Management and Accountability Act 1997*, a new set of Chief Executive Instructions was developed during 1998-99.

Development of the instructions provided the opportunity to implement a number of improvements in administrative processes.

Audit Committee

The Commission's Audit Committee has a charter to review processes and practices, examine financial statements and advise on improvements. Most of the committee's efforts during the year related to the financial statements process.

External reviews

The Australian National Audit Office in *Audit Report No. 20: 1998-99 Financial Statement Audit* indicated that the Commission's 1997-98 audit report was unqualified and not modified.

Resource summary

The Commission's audited financial statements for 1998-99 are included in appendix F.

The operating deficit for 1998-99 on an accrual basis reflects the strategy adopted in 1996-97 to use funds in a way which smoothed the effects of the Government's reduction in budget funding for the Commission. On a cash basis, the Commission produced a surplus.

A comparative summary of staff and financial resources in 1998-99 and the preceding year is provided in table A.1.

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

	<i>Actual 1997-98</i>	<i>Budget and Additional Estimates 1998-99</i>	<i>Actual 1998-99</i>
	\$'000	\$'000	\$'000
Budgetary (cash) basis			
Running costs	21 658	23 011 ^a	21 552 ^b
Annotated appropriations (section 31 of the <i>Financial Management and Accountability Act 1997</i>)	0	193	0
Other services: contribution to economic modelling	788	0	0
Total annual appropriations	22 446	23 204	21 552
Less receipts under section 31 of the <i>Financial Management and Accountability Act 1997</i>	-89	-193	-103
Less other adjustments ^c	-14	-36	0
Total adjustments	-103	-229	-103
Total outlays	22 343	22 975	21 449
Accrual Basis			
Net cost of service delivery	22 848		21 778 ^d
Staffing			
Staff years (actual) ^e	218	215	203

^a 1998-99 Appropriation Act Nos 1 (\$19.905m) and 3 (\$3.106m). ^b Includes \$0.694m of costs attributable to 1997-98 but paid in 1998-99, giving a net total of \$20.858m for output costs in 1998-99. ^c Miscellaneous receipts. ^d See appendix F – Statement of Revenues and Expenses (total expenses \$21.902m less revenues from independent sources \$0.114m). ^e Full-time equivalents.

Other

Consultancies

The Commission continued to utilise the services of a range of consultants where it was considered cost effective to do so. A summary of consultancies let in 1998-99 is shown in table A.2 and further details are provided in attachment A3.

Section 45 of the *Productivity Commission Act 1998* requires that, where the estimated value of a consultancy exceeds the amount prescribed by regulations under the Act, the Chairman of the Commission must ensure that an open and competitive tendering process is used to select the consultant. On 30 July 1998 the Governor-General made a regulation prescribing that amount to be \$20 000.

Table A.2 Summary of consultancies let in 1998-99

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	16	313 491
Performance reporting	2	35 500
Supporting research and activities and annual reporting	4	65 000
Corporate management and services	4	40 500
Total	26	454 491

Special payments

The Commission made a number of special payments during 1998-99. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's objectives. The main payments were as follows:

Consortium membership: \$25 641 for membership to the Global Trade Analysis Consortium based at Purdue University, USA. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input to the future direction of model and database development.

Research partnership: \$17 000 to the Melbourne Institute of Applied Economic and Social Research, University of Melbourne, as the second of three annual instalments for a project on innovation, productivity and profitability in Australian enterprises. The Commission is one of five partners in this project. The others are IBIS Information Pty Ltd, the Australian Taxation Office, the Office of Small Business and the Victorian Department of State Development. The project brings together a range of data, some previously unavailable for research purposes, to examine issues related to the performance of Australian enterprises.

Conference sponsorships: \$15 000 to Monash University for part sponsorship of the 1999 Industry Economics Conference; \$1500 for the Economic Society's 1998 Conference of Economists and \$3000 for the 1999 conference; and \$1000 to the University of Western Australia for the PhD conference in Economics and Business.

Awards: \$500 to the top 1998 student, Master of Economics, at the Australian National University (Robert Jones Prize).

Research sponsorships: The Commission discharged a commitment of \$40 000 to the Johns Hopkins University, USA. This was for the completion of the final stage

for the Australian component of the Comparative Non Profit Sector Project which aims to collect comparative data on non-profit organisations from a number of countries.

Advertising and market research

The Commission publicises its government commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases and direct mailing of Commission circulars.

A total of \$95 980 was paid for advertising (including recruitment) in 1998-99, being \$52 022 to TMP Worldwide and \$43 958 to Advertising Investment Services P/L.

Publications and submissions

Appendix E lists all publications and submissions to other review bodies completed in 1998-99.

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 Prime Minister and Cabinet. A compliance index is provided in attachment A4.

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

Inquiries about any Commission publication can be made to:

Director
Media and Publications Unit
Productivity Commission
PO Box 80
BELCONNEN ACT 2616
Telephone: (02) 6240 3239
Facsimile: (02) 6240 3300

Attachment A1

Corporate information and statistics

Table A1.1 **Chairman and Commissioners, 30 June 1999**

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 1998	19 May 2003
Prof R H Snape (M) (Deputy Chairman ^a)	17 Apr 1998	16 Apr 2003
Dr R N Byron ^b (M)	17 Apr 1998	16 Apr 2002
Mr J H Cosgrove (C)	17 Apr 1998	16 Apr 2002
Mrs H J Owens (M)	17 Apr 1998	16 Apr 2001
Prof J Sloan (M) (p/t)	17 Apr 1998	16 Apr 2001
Mr M C Woods (C) (p/t)	17 Apr 1998	16 Apr 2001

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

^a From 24 February 1999. ^b Dr Byron did not commence duty until 15 July 1998 due to prior international commitments.

Table A1.2 **Associate Commissioners appointed to inquiries, 1998-99**

	<i>Inquiry</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr R W Fitzgerald	Australia's gambling industries	26 Aug 1998	24 Dec 1999
Dr D Scrafton	Progress in rail reform	29 Aug 1998	30 Sep 1999
Mr R A Braithwaite	Impact of competition policy on rural and regional Australia	16 Dec 1998	31 Oct 1999
Mr S A Simson	Broadcasting	26 Mar 1999	30 Apr 2000
Dr B R Stewardson	Liner cargo shipping	13 Apr 1999	30 Sep 1999

Table A1.3 Staff profile^a, 30 June 1999

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Senior Executive Service Band 3	0	1	1
Senior Executive Service Band 2	2	1	3
Senior Executive Service Band 1	4	14	18
Staff Level 4	13	29	42
Staff Level 3	17	27	44
Staff Level 2	17	27	44
Staff Level 1	38	11	49
Total	91	110	201
Corresponding totals at 30 June 1998	87	108	195

^a Excludes 21 inoperative staff at 30 June 1999 and 12 at 30 June 1998.

Table A1.4 Senior Executive Service staff^a by employment status, 30 June 1999

<i>Level</i>	<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	Full-time Permanent	0	1	1
SES Band 2	Full-time Permanent	2	1	3
SES Band 1	Full-time Permanent	3	11	14
SES Band 1 (HDA)	Full-time Temporary	1	3	4
Total		6	16	22
Corresponding totals at 30 June 1998		5	16	21

^a Excludes 3 inoperative staff at 30 June 1999 and 1 at 30 June 1998.

Table A1.5 Staff other than Senior Executive Service^a by employment status, 30 June 1999

<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time permanent	74	86	160
Full-time temporary	6	7	13
Part-time permanent	4	1	5
Part-time temporary	1	0	1
Total	85	94	179
Corresponding totals at 30 June 1998	82	92	174

^a Excludes 18 inoperative staff at 30 June 1999 and 11 at 30 June 1998.

Table A1.6 Staff^a by level and location, 30 June 1999

<i>Level</i>	<i>Melbourne</i>	<i>Canberra</i>	<i>Total</i>
Senior Executive Service Band 3	1	0	1
Senior Executive Service Band 2	2	1	3
Senior Executive Service Band 1	9	9	18
Staff Level 4	18	24	42
Staff Level 3	22	22	44
Staff Level 2	31	13	44
Staff Level 1	32	17	49
Total	115	86	201
Corresponding totals at 30 June 1998	107	88	195

^a Excludes the following inoperative staff at 30 June 1999 — Melbourne 8 and Canberra 13, and at 30 June 1998 — Melbourne 3 and Canberra 9.

Table A1.7 Staff by level and reason for separation, 1998-99

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
SES ^b	0	0	0	0	2	0	2
Staff Level 4	0	2	5	1	0	0	8
Staff Level 3	1	2	4	0	0	0	7
Staff Level 2	2	2	3	0	1	1	9
Staff Level 1	1	1	2	1	1	8	14
Total	4	7	14	2	4	9	40
Corresponding totals at 30 June 1998	8	7	30	0	7	18	70

^a Voluntary Redundancy Package. ^b Senior Executive Service.

Table A1.8 Staff by equal employment opportunity groups, 30 June 1999

<i>Level</i>	<i>Gender</i>			<i>Aboriginal or Torres Strait Islander peoples</i>	<i>People with disabilities</i>	<i>NESB^b</i>	
	<i>Female</i>	<i>Male</i>	<i>Total</i>			<i>1st gen.</i>	<i>2nd gen.</i>
SES ^a Band 3	0	1	1	0	0	0	0
SES ^a Band 2	2	1	3	0	0	0	0
SES ^a Band 1	5	16	21	0	2	1	4
Staff Level 4	14	33	47	0	1	0	6
Staff Level 3	21	26	47	0	6	6	8
Staff Level 2	19	32	51	0	1	0	12
Staff Level 1	41	11	52	0	2	1	11
Total	102	120	222^c	0	12	8	41

^a Senior Executive Service. ^b Non-English speaking background (1st generation and 2nd generation). ^c Includes 21 inoperative staff.

Source: Based on staff responses to voluntary EEO surveys. Staff may choose not to identify themselves in EEO groups.

Table A1.9 **Proportion of staff in equal employment opportunity groups^a**

<i>EEO Group</i>	<i>Productivity Commission</i>		<i>APS^b</i>	
	<i>Per cent at 30 June 1998</i>	<i>Per cent at 30 June 1999</i>	<i>Per cent at 30 June 1998</i>	<i>Year 2000 target per cent</i>
Females				
– in SES	25	27	22	20
– in Staff Level 4	32	30	25	28
– in total staff	45	46	48	50
Aboriginal or Torres Strait Islander people in total staff	0	0	2	2
People with disabilities in total staff	6	6	5	5
People of non-English speaking background in total staff	16	22	15	15

^a Based on staff responses to voluntary EEO surveys. ^b Public Service Commissioner (1998) and PSMPC (1997).

Attachment A2

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 inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries. Such persons are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence, as are people who assist the Commission in the performance of its functions in any other way.

Each year the Commission invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program

The Commission acts as the Secretariat for the Steering Committee for the Review of Commonwealth/State Service Provision. The Committee comprises senior representatives from Commonwealth, State, Territory and Local governments.

The procedures of the Competitive Neutrality Complaints Office allow any individual, organisation or government body to consider and, if necessary, lodge a complaint in relation to the application of competitive neutrality. In addition, representatives from various competitive neutrality branches and complaint offices from the Commonwealth, State and Territory governments meet to discuss issues relevant to the interpretation and implementation of competitive neutrality policy.

Categories of documents

Principal categories include:

- inquiry records including, information circulars, issues papers, inquiry guidelines, draft reports, submissions, participant correspondence, public hearing transcripts;
- documents relating to infrastructure research and performance monitoring across the Commonwealth, States and Territories;
- documents relating to national and international benchmarking;
- competitive neutrality complaint queries and details of investigations;
- documents relating to research on industry and productivity issues.
- Regulation Impact Statements and correspondence;
- Commonwealth legislation review correspondence;
- regulatory best practice correspondence;
- administrative, policy, procedural and contractual documents, relating to information technology, human and financial resource management;
- legal advice and other legal documents;
- FOI documents;
- media releases;
- mailing lists;
- speeches;
- consultancy documents;
- service charters;
- parliamentary questions and answers; and
- submissions to inquiries undertaken by other organisations.

Facilities for access

Information circulars, issues papers, information on the inquiry process and draft reports are sent to interested parties and inquiry participants. They are available on the Commission's website and, on request, to the public free of charge. Final reports are distributed, free of charge, to inquiry participants and are also available for downloading from the Commission's website.

Documents available for purchase at AusInfo Shops and from the Commission's website include:

- the Commission's annual report to Parliament;
- reports on matters referred to the Commission by the Minister;
- reports on matters researched and monitored by the Commission, and
- reports on competitive neutrality matters investigated by the Commission.

Copies of submissions made to inquiries, excluding confidential material, and transcripts of public hearing can be downloaded from the Commission's website or purchased through Photobition Digital Imaging, GPO Box 427, Canberra, ACT 2601.

Copies of submissions and transcripts of public hearings may be inspected in the Commission's libraries in Melbourne and Canberra between 9.00am and 5.00pm, Monday to Friday. These documents can also be accessed through all State libraries and the Commission's website.

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

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

Attachment A3

Consultancies let in 1998-99

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Government-commissioned projects			
Dr Derek Scrafton	Advice on rail inquiry before appointment	878	Directly approached one provider
IRIC/Muresk (Curtin University)	Quantify impact of imports of pigmeat on the domestic industry	29 400	Public tender
Dr Brett Inder	Referee modelling for pigmeat inquiry	5 000	Directly approached one consultant
Econtech	General equilibrium modelling of the economic impacts of the gambling industries in Australia	38 000	Tenders sought from two of six acknowledged industry expert consultants (note other four had links to inquiry participants)
Dr G Griffith NSW Agriculture	Quantify impact of imports of pigmeat on the domestic industry	16 073	Public tender
Prof Richard Morey	Provide expert commentary and participate in modelling workshop on rail inquiry	14 000	Directly approached three possible consultants
Dr J Madden	Referee modelling for impact of competition policy inquiry and participate in modelling workshop	5 000	Chosen on basis of familiarity with type of modelling
Prof Ken Clements	Referee modelling for impact of competition policy inquiry and participate in modelling workshop	5 000	Chosen on basis of familiarity with type of modelling
Economic Insights	Referee modelling for impact of competition policy inquiry and participate in modelling workshop	5 000	Chosen on basis of familiarity with type of modelling
Roy Morgan Research	National survey of gambling	160 000	Tenders sought from four major national survey consultants

(continued on next page)

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Trace & Associates	Provide expert commentary and participate in modelling workshop on liner cargo shipping inquiry	4 500	Directly approached one consultant
Trace & Associates	Provide expert commentary and participate in modelling workshop on rail inquiry	4 500	Directly approached one consultant
Media Strategies P/L	Provide media advice and media strategy development	9 000	Directly approached one consultant
Aust Key Centre for Cultural & Media Policy (Griffith University)	Research paper on indigenous broadcasting	5 000	Directly approached one consultant
Aust Key Centre for Cultural & Media Policy (Griffith University)	Provide workshop on social and cultural objectives of broadcasting regulation	2 140	Directly approached one consultant
Prof Jan Carter	Provide written comment on material relating to gambling inquiry	10 000	Directly approached one consultant
<i>Government-commissioned projects — total</i>		<i>313 491</i>	
Performance reporting			
School Research Evaluation & Measurement Service	Prepare background paper on current stock and scope of performance data for schools	8 000	Proposals from four providers
Ovum P/L	Developments in telecommunications markets	27 500	Public tender
<i>Performance reporting — total</i>		<i>35 500</i>	
Supporting research and activities and annual reporting			
CTC Consultants	Conduct case study on contracting out to assess contribution to improved procedure, policy and mechanisms by which it is achieved	20 000	Public tender

Continued on next page

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Dr Anne Daly	Determinants of youth employment	10 000	Directly approached one consultant
Centre of Policy Studies (Monash University)	Regional validation of the Monash model ^a	25 000	Single tender as task required extension of existing model
Assoc Prof Jeff Borland	Provide specialist labour advice	10 000	Directly approached one consultant
<i>Supporting research and activities and annual reporting — total</i>		<i>65 000</i>	
Corporate management and services			
Price Waterhouse	Undertake a quality control and review role in the preparation of the PC's 1997-98 financial statements	11 000	Directly approached two consultants
Wizard Info systems	Quality review	7 000	Recommended by implementation sub-committee
Simsion Bowles & Associates	HR and payroll review phase 1	15 000	Directly approached one consultant
Simsion Bowles & Associates	HR and payroll review phase 2	7 500	Directly approached one consultant
<i>Corporate management and services — total</i>		<i>40 500</i>	
Total consultancies		454 491	

^a Payment for this consultancy is being made over 3 years: \$25 000 in 1998-99; \$50 000 in 1999-00 and \$25 000 in 2000-01.

Attachment A4

Compliance index

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B Program performance

The role of the Productivity Commission 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 outputs comprise government-commissioned projects, performance reporting and other services to government bodies, regulation review activities, competitive neutrality complaints activities, as well as supporting research and statutory annual reporting.

This appendix reports on some general considerations in assessing the Commission's performance, the results of external feedback surveys undertaken in the year, and the Commission's outputs and related performance in 1998-99.

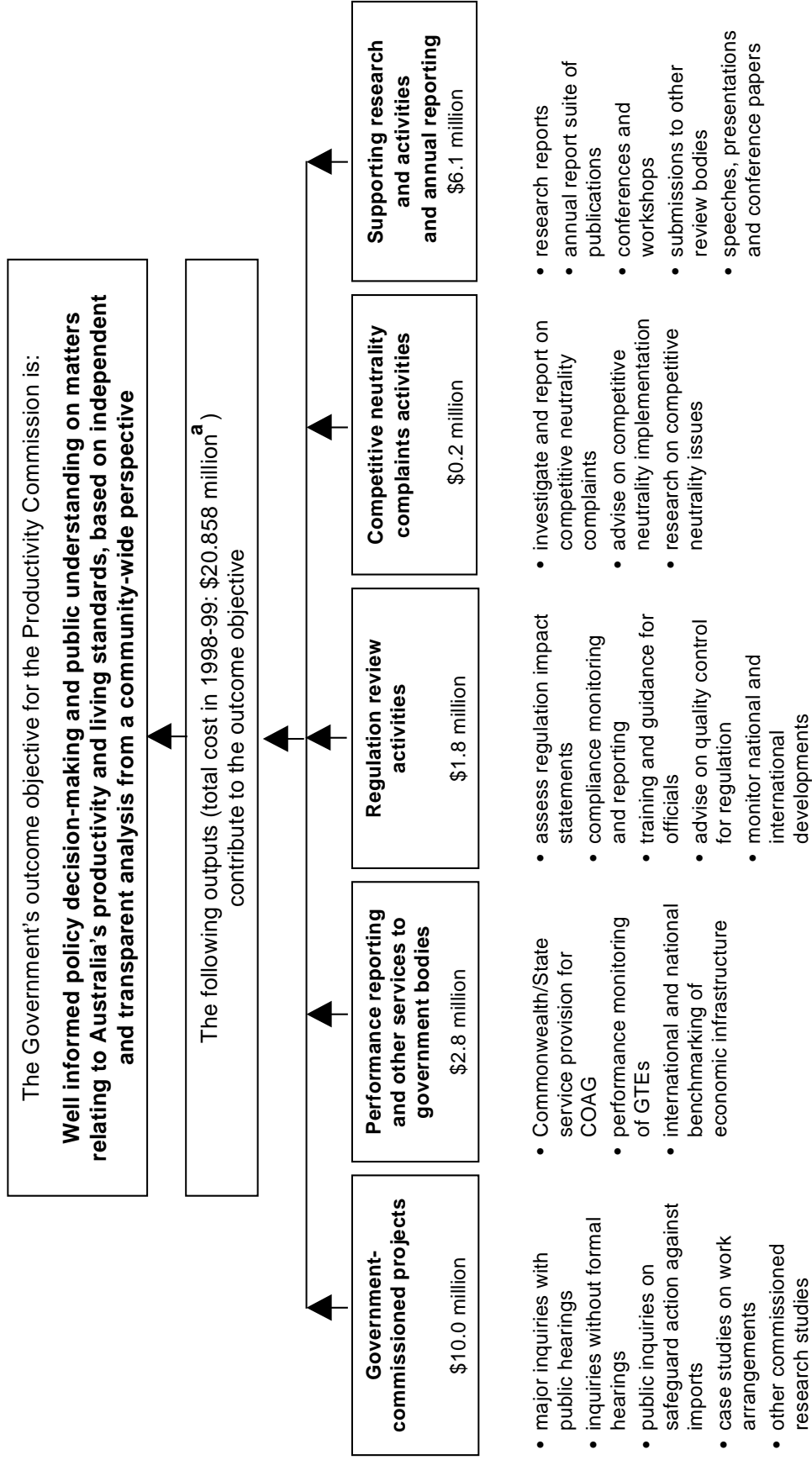
Assessment of the Commission's performance

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

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

The outcome by which the Commission's overall performance is to be assessed is well informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Figure B.1 Productivity Commission outcome/output framework



^a All costs are on a cash basis. On an accrual basis, total cost was \$21.903 million while accrual based costs for the five outputs are reported elsewhere in this appendix.

As required under the parliamentary guidelines for annual reports, a summary of staff and financial resources used by the Commission in producing its outputs in 1998-99 is in table A.1 of appendix A.

Interpreting performance indicators for the Commission

Assessment of the Commission's performance needs to take account of a range of factors. For example:

- The effectiveness with which the Commission's outputs contribute to the achievement of its designated outcome can be difficult to assess and is often subjective.
 - The Commission is but one source of policy advice on matters relating to Australia's productivity and living standards.
 - Feedback on the Commission's performance often can be of an informal kind, which is hard to document and collate systematically.
 - Views about its performance can reflect the interests of those affected by its analysis or advice.
- The Commission's work program covers contentious and complex structural policy issues on which the Commission's impact should properly be assessed over the medium to longer term. For example:
 - During 1998-99 sittings, federal parliamentarians made extensive use of the Industry Commission's 1997 report on private health insurance and the analysis behind its proposal for lifetime community rating, and referred to fringe benefits and salary packaging issues raised in the Industry Commission's 1996 report on charitable organisations, as well as to that Commission's 1994 report on R&D, and even to the 1987 Industries Assistance Commission report on manufacture in bond.
 - The report of the Audit Office of NSW on industry assistance programs administered by the Department of State and Regional Development, which was tabled in December 1998, drew extensively on the 1996 Industry Commission report on State, Territory and local government assistance to industry.
- Although the processes the Commission brings to bear are mostly within its control, the quantum and scope of the Commission's work are largely determined externally. This includes the number and timing of government-commissioned projects, regulation impact statement assessments and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Commonwealth/State Service Provision is guided by a Steering

Committee. One implication for any broad assessment of the Commission's performance is its need to vary resources amongst its different outputs. Thus, for example, the number or timeliness of outputs from the Commission's supporting research program need to be interpreted in the light of the demands of its public inquiry workload. Further, projects can vary widely in terms of the scope and complexity of issues and the time needed to allow adequate public consultation and participation.

- The Commission has no control over the release of its final inquiry reports or the time taken for decisions on such reports. Extended delays in the tabling of final reports in parliament and decision making can compound the difficulties of assessing outcomes. The Productivity Commission Act, like the Industry Commission Act, requires that the Minister table inquiry reports within 25 sitting days of receipt. Two Industry Commission inquiry reports — ecologically sustainable land management and telecommunications equipment, systems and services — were tabled in 1998-99 well after the due date. Initiatives were taken by the Government to finalise decisions on a range of reports dating back to 1996 (reported in appendix C) and to meet the statutory tabling requirements. Productivity Commission reports on international air services and the implementation of ecologically sustainable development by Commonwealth departments and agencies were not tabled within 25 sitting days.

In reporting against each of its outputs in subsequent sections, the Commission has attempted to do so against the performance indicators agreed under the Government's accrual budget outcome and output framework. Strictly speaking, reporting against these indicators is not required until 1999-2000, but the Commission has utilised the framework this year in order to be better placed for such reporting next year.

In regard to reporting on quality indicators for its various outputs, the Commission is developing an approach which relies on best practice quality assurance techniques and feedback from users, with assessment against specific criteria. Feedback (solicited and unsolicited) is discussed below. Quality assurance includes project scoping and resource allocation, internal refereeing and, increasingly, the engagement of external referees. Where external referees assess modelling undertaken for an inquiry, for example, their views are included in the published report.

Criteria being developed to assess quality include whether:

- all relevant questions (as specified in terms of reference, for example) have been addressed;
- all appropriate information has been brought to bear in analysis;

-
- appropriate consultation with interested parties and experts in the field has occurred;
 - material relied upon is as accurate as possible;
 - robust and up-to-date analytic techniques have been used;
 - conclusions are supported by rigorous argument; and
 - reports are well written and presented.

Feedback surveys

In April 1999 the Commission initiated two surveys in order to understand better how it is perceived externally, to gauge the effectiveness of its work and processes, and to obtain suggestions for its work program (box B.1). Such surveys provide one source of information on the Commission's performance which can help it identify ways to do better.

Commission attributes which respondents rated most highly — more than 80 per cent agreement — are summarised in table B.1, whereas those attributes for which there was less than 60 per cent agreement are listed in table B.2.

Box B.1 Feedback surveys

The Commission conducted two related surveys between April and June 1999, a *Feedback Survey* and an *Inquiry Feedback Survey*. Each survey contained four sections — views on the Productivity Commission, the readability of its reports, general comments and the inquiry process — each offering a mixture of open and closed questions. Although each survey contained the same set of questions, different sections were optional. While respondents were classified to groups, the Commission undertook not to identify individuals. The main groups comprised respondents in associations (including unions), business, State government bodies, Commonwealth bodies and universities.

The Feedback Survey was mailed to 540 potential respondents, and the Inquiry Feedback Survey to 300 potential respondents. Respondents were chosen largely from the Commission's general mailing list and, at random, from participants in three recent inquiries (nursing home subsidies, pigs and pigmeat and international air services) and Steering Committee contacts.

The Feedback Survey and the Inquiry Feedback Survey achieved response rates of 31 per cent and 25 per cent, respectively. A large majority of respondents answered all sections of their survey. The Commission intends to release the survey results.

The Commission rated highly in terms of two of its three operating principles — the provision of independent analysis and advice and the use of processes that are open and transparent. The Commission’s independence and impartiality were ranked first in importance by respondents. Perceptions of the Commission’s performance in meeting its third operating principle — to take a community-wide perspective — received lower support, with nearly two thirds of respondents agreeing that the Commission took this perspective in its reports.

The majority of respondents considered that the Commission’s work made a ‘vital’ contribution to current policy issues and debates (which ranked second in terms of importance to respondents), although less than half considered that the Commission was used effectively by government. A little more than half of respondents considered that the Commission generally has a good reputation within the community.

Table B.1 Commission attributes: widely held respondent views

<i>View/perception</i>	<i>Level of agreement</i>
	per cent
The Commission encourages participation by all parties with an interest in the inquiry	95
The Commission produces high quality inquiry and research reports	91
Commission reports are an important source of reference material	89
The Commission is independent and impartial	88
The inquiry process is open and transparent	87
The Commission's work makes a vital contribution to current policy issues and debates	86
The Commission's inquiry and research processes are consultative and transparent	86
The arguments presented in each report are clear	85

Table B.2 Commission attributes: less widely held respondent views

<i>View/perception</i>	<i>Level of agreement</i>
	per cent
Those without considerable resources are still able to participate effectively	58
The Commission generally has a good reputation within the community	55
Questioning of participants in public discussion forums is thorough ^a	54
The Commission is sensitive to State issues	51
The Commission is sensitive to the social impacts of its recommendations	50
The public inquiry process enables participants to easily rebut/respond to ideas of others	48
The Commission is used effectively by government	40
Some Commission reports are overly driven by quantitative modelling ^a	24

^a A high percentage (over 30 per cent) of ‘no opinion’ was recorded for these attributes.

Attributes on which only around half of the respondents agreed, were the Commission's sensitivity to the social impacts of its recommendations and its sensitivity to State issues.

The Commission's reports rated highly in terms of quality and clarity, and as a source of reference material. Forty three per cent of respondents disagreed with the statement that some Commission reports were overly driven by quantitative modelling.

Respondents commented favourably about the Commission's inquiry processes, particularly with respect to encouraging participation by interested parties and transparency. However, up to half of respondents were critical of the thoroughness of questioning of participants in public forums, the ease with which participants in the public inquiry process could respond to the ideas of others and the resources needed to participate effectively in an inquiry.

In the main, the results for each of the respondent groups did not differ significantly from the overall results. Nevertheless, the Commission generally rated better with universities and government, and less well with associations (including unions).

The Commission intends to factor the issues raised by respondents into the consideration of ways in which its performance can be enhanced. For example, rather than participants having to purchase copies of inquiry submissions and hearing transcripts or to view them in the Commission's offices or State Libraries, the Commission has moved to place these documents routinely on its internet website. This is allowing many people to have earlier and less costly access to the views and analysis being put to the Commission.

Other broad-based performance indicators

In addition to the performance indicators for 1998-99 referred to in chapter 3 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 call by all the Premiers and Chief Ministers in July 1999 for the Productivity Commission to undertake a wide-ranging inquiry into the nation's health system;
- the proposal by the Chief Minister of the ACT for the Commission to undertake a review of the role of competition in the medical specialist workforce;
- the support of the National Competition Council for, and the willingness of Victorian and Tasmanian Governments to cooperate with, national reviews of regimes for workers compensation and compulsory third party motor vehicle insurance by the Commission;

-
- the call in January 1999 by the Australian Chamber of Commerce and Industry for the Commission to review cost recovery arrangements for regulatory agencies;
 - requests, approved by the Treasurer or Assistant Treasurer, for the Commission to undertake research studies on behalf of the ACT Government and the Minister for Industry, Science and Resources; and
 - the agreement of all parties to the General Practice Memorandum of Understanding of 6 August 1999 that, in the event a mutually acceptable conciliator cannot be agreed, the Commission may be asked to appoint a conciliator. The Memorandum is between the Commonwealth of Australia, the Royal Australian College of General Practitioners, the Rural Doctors Association of Australia and the Australian Divisions of General Practice, and operates for the three years to 30 June 2002.

The remaining sections of this appendix report on the activities and performance for each of the Commission's five outputs.

Government-commissioned projects

These are major tasks commissioned or explicitly requested by Australian governments. The tasks encompass the conduct of public inquiries, work arrangements case studies, program evaluations, taskforces and other commissioned research projects. These projects typically involve extensive public consultation.

In response to these requests, the Commission aims to undertake projects in accordance with required processes and to produce reports which are of a high standard, delivered on time and are useful to government. Performance against these indicators is reported below.

The resources used in producing this output in 1998-99 are estimated to have been:

- 70.9 staff years; and
- \$10.0 million on a cash basis, or \$10.5 million on an accrual basis.

Activities in 1998-99

The Commission had 15 government-commissioned projects under way at some time during the year. The program of government-commissioned projects is summarised in table B.3.

The range of public inquiries under way indicates the diversity and complexity of the policy issues to which the Commission has been asked to contribute in recent years.

- The three inquiries completed in the year were on the Australian black coal industry, international air services, and safeguard action for the pig and pigmeat industries.
- Two further inquiries were commenced and finalised within the year: nursing home subsidies and the implementation of ecologically sustainable development by Commonwealth departments and agencies.
- Six other inquiries also commenced: progress in rail reform; the economic and social impacts of Australia's gambling industries; the impact of competition policy reforms on rural and regional Australia; international telecommunications market regulation; broadcasting; and international liner cargo shipping.

In January 1997 the Treasurer commissioned a series of research studies into work arrangements in stevedoring and the black coal industry, with studies of meat processing and building and construction to follow. The studies aimed to highlight

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

	1997-98					1998-99					1999-00													
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Public inquiries:																								
The Australian black coal industry																								
International air services																								
Pig and pigmeat industries: safeguard action																								
Nursing home subsidies																								
Progress in rail reform																								
Implementation of ESD																								
Australia's gambling industries																								
Impact of competition policy on rural and regional Australia																								
International telecommunications market regulation																								
Broadcasting																								
International liner cargo shipping																								
Case studies on work arrangements:																								
Meat processing																								
Large capital city building projects																								
Commissioned research studies:																								
Battery eggs sale and production in the ACT																								
Environmental performance of commercial buildings																								

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

the benefits and costs of workplace arrangements — involving both workers and management, and formal and informal arrangements.

- The Commission’s research report on work arrangements in container stevedoring was released in April 1998.
- The black coal study was incorporated into a broader public inquiry on Australia’s black coal industry conducted by the Commission, the report on which was finalised in July 1998 and released by the Government in February 1999.
- The Commission released its study of work arrangements in Australia’s meat processing industry in October 1998.
- It also conducted a study of work arrangements on large capital city building projects during 1998-99, the report on which was released on 24 August 1999.

The Commission also undertook two other government-commissioned research projects:

- an investigation of the public benefits of banning the production and sale of eggs from battery caged hens in the ACT and associated labelling requirements. The study had been requested by the Treasurer on behalf of the ACT Government; and
- a six-month research study on the environmental performance of commercial buildings which the Commission commenced in June 1999. This study was foreshadowed the previous month in the Government’s Building and Construction Industries Action Agenda.

Trends in inquiry activity and participation are shown in table B.4. The details of individual projects are provided in appendix C.

Table B.4 Public inquiry activity, 1995-96 to 1998-99

<i>Indicators</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>
References received	5	4	4	8
Issues papers released	5	4	3	9
Public hearings (sitting days) ^a	33	32	30	57
Organisations/people visited ^b	586	375	241	277
Submissions ^b	1 329	774	626	421
Draft reports/position papers completed	5	6	4	6
Reports completed	5	7	3	5
References on hand (at 30 June)	5	2	3	6

^a Excludes forums and round-table discussions. ^b As distinct from hearing days, which are attributed to the year in which they occur, visits and submissions relate to inquiries completed in that year.

The Commission endeavours to conduct government-commissioned projects in an economical manner. For the inquiries completed in 1998-99, total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) are as shown in table B.5. Costs for other government-commissioned projects completed in the year are also listed.

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 1995-96 to 1998-99 are in table B.6. Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for travel, printing costs and the duration of the inquiry or project.

Table B.5 Cost of public inquiries and other commissioned projects completed in 1998-99^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
The Australian black coal industry	1 695
International air services	1 114
Pig and pigmeat industries: safeguard action against imports	306
Nursing home subsidies	335
Implementation of ecologically sustainable development by Commonwealth departments and agencies	714
Work arrangements in the Australian meat processing industry	407
Battery eggs sale and production in the ACT	74

^a Includes overheads.

Table B.6 Direct administrative expenditure on commissioned projects^a, 1995-96 to 1998-99

<i>Expenditure item</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>
	\$	\$	\$	\$
Travel	557 162	307 157	326 663	471 210
Printing	263 316	269 305	162 932	107 589
Consultants	160 362	122 578	163 957	228 509
Other ^b	322 700	165 105	131 498	240 072
Total	1 303 541	864 145	785 051	1 047 380

^a Expenditure other than salaries and corporate overheads. Data before 1998-99 differ from that published in previous annual reports because all government-commissioned projects, not just inquiries, are now included in the table. ^b Includes other costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

Consultative processes

The practice of consulting widely with industry, government departments and agencies, unions, academics and the broader community during the course of inquiries continued in 1998-99. Trends in the number of visits conducted and public hearing days held are shown in table B.4.

Commission initiatives in the year to enhance the ways in which its inquiries drew on and encouraged community input are discussed in chapter 3. In particular, these included the extensive round-table discussions undertaken in the course of inquiries on Australia's gambling industries and the impact of competition on rural and regional Australia, the release of 'position papers' in inquiries with tight reporting times and the holding of modelling workshops.

The Commission extended inquiry-like processes to the conduct of its other government-commissioned projects. For example:

- As part of its study of work arrangements on large capital city building projects, the Commission met with around 60 interested parties, including industry and client building associations, major national contractors, specialist subcontractors, and Commonwealth and State government departments. The Commission also visited five building sites and held detailed discussions with managers, supervisors, employees and union delegates. It advertised the study in the press, released an Issues Brief early in the course of the study, and released a 'Work-in-Progress' report which summarised the Commission's preliminary thinking. The Commission received a total of 30 submissions in response to both the issues brief and the 'Work-in-Progress' report.
- The Commission advertised the commencement of its research study of ACT battery hen regulation and sought public submissions, of which more than 100 were received. Copies of major submissions were distributed to organisations for comment, and the Commission held discussions with representatives of animal welfare groups, egg producers, scientists and relevant ACT and Commonwealth government officials.

Quality indicators

A range of 'quality assurance' processes is 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 of 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 or position papers, and transcripts of public hearings. In addition to the dissemination of

‘Work-in-Progress’ reports to interested parties, the Commission’s quality assurance process for its research studies on work arrangements in Australia’s meat processing industry and on large capital city building projects also encompassed comments from independent referees.

The Commission’s initiatives in drawing on wider sources of expertise where economic modelling is used in these projects and extending inquiry-like processes to other government-commissioned projects are documented elsewhere in this report.

The results of the feedback surveys conducted in mid-1999 indicated that the Commission has a reputation for quality work. More than 90 per cent of respondents agreed that the Commission produced high quality inquiry and research reports even though some respondents were more critical of other aspects of its operations. As noted above, future feedback surveys will contain more specific questions on the different dimensions of quality.

The Government’s formal responses to the work it has commissioned potentially provide another indicator of the quality of that work. These responses are also an indicator of usefulness and are reported under that heading below. More detail on government responses to Commission reports in 1998-99 is provided in appendix C.

Timeliness

Notwithstanding some relatively tight reporting periods, the Commission completed all of its government-commissioned projects on schedule in 1998-99. The Commission’s inquiry program contained a large proportion of projects with relatively short reporting timeframes: 140 days to report on safeguard action for the pig and pigmeat industries; six months for the inquiries on nursing home subsidies, international telecommunications market regulation and international liner cargo shipping; and nine months each for international air services and the implementation of ecologically sustainable development. In all except the last of these inquiries, the Commission was required to hold public hearings.

Indicators of usefulness

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

-
- The usefulness of Commission reports completed in the past year is demonstrated, in part, by reference to them in parliamentary debate and questions. For example:
 - The Commission’s inquiry and report on nursing homes subsidies, which was released in March 1999 and to which the Government is formulating a response, were referred to on 22 occasions by 11 different Members and Senators in Parliament, as well as in Senate Estimates hearings. Other reports drawn on in Federal Parliament this year were the final reports on the black coal industry, international air services and pigs and pigmeat.
 - Preliminary analysis in Commission draft reports was also used in parliament. For instance, findings in the draft report on the impact of competition policy on rural and regional Australia were used by Senators and Ministers. The Commission’s analysis of vertical separation issues in its draft report on progress in rail reform was used by government and opposition members in debate on the Rail Freight System Bill 1999 in the Western Australian Parliament.
 - The Commission’s impact on policy making is revealed most directly through government decisions on its reports. In 1998-99 the Government announced that it supported all the Commission’s recommendations in the black coal report and would work with the States to ensure their implementation. The broad acceptance of recommendations in other inquiry reports — safeguard action for pigmeat, international air services and a number of Industry Commission reports dating back to 1996 — as well as government responses which differed from Commission recommendations, are documented in appendix C.
 - Endorsement of the Commission’s analyses of productivity-restricting work practices in the coal mining and meat processing industries is found in recent decisions by the Australian Industrial Relations Commission (AIRC).
 - In its report on Australia’s black coal industry, the Productivity Commission recommended that a range of matters should not be included as part of allowable award matters. In its Curragh decision, for example, the AIRC (1998) rejected calls for award provisions to regulate staffing levels, impose skill and job demarcations, regulate the engagement of contractors, give preference to seniority in rostering and selection for redundancy, and incorporate past ‘custom and practice’ agreements.
 - The AIRC used the Commission’s study of work arrangements in Australian meat processing industry in its deliberations on the simplification of the Federal Meat Processing Industry Award. In particular, the AIRC (1999b) cited the Commission’s description and summary of the tally system, the

extent of its use and the system's adverse effect on productivity. The AIRC determined that tally provisions would not be retained in the award.

- A measure of the Commission's effectiveness in contributing to public understanding is the media coverage of its reports and use of its website. For inquiries current in 1998-99, the Commission's website pages were accessed approximately 144 200 times in the 12 months to June 1999. The Commission's inquiries and reports receive extensive media coverage and there were seven editorials on inquiries current in the year. Use of Commission reports by people outside government can be difficult to track, but one example during the year was the use of the Commission's draft report on the implementation of ESD by a number of groups in Senate Committee hearings on the Environment Protection and Biodiversity Conservation Bill 1998.

Performance reporting and other services to government bodies

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

- provides secretariat, report preparation and research services to the Steering Committee for the Review of Commonwealth/State Service Provision in respect of developing performance indicators for government provided or funded services and analysing reforms in these services;
- continues some performance monitoring and conducts related research on government trading enterprises, work the Commission previously undertook for the now disbanded COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises; and
- undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

The Commission aims to produce reports of a high standard which are completed on time and useful to government.

The resources used in producing the Commission's performance reporting output in 1998-99 are estimated to have been:

- 25.1 staff years; and
- \$2.8 million on a cash basis, or \$2.9 million on an accrual basis.

Activities in 1998-99

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

- *Performance of Government Trading Enterprises 1991-92 to 1996-97*;
- *Report on Government Services 1999, volumes 1 and 2*;
- *Superannuation in the Costing of Government Services*;
- *Implementing Reforms in Government Services*;
- *Feedback on the Government Services Report*; and
- *International Benchmarking of Australian Telecommunications*.

Review of Commonwealth/State Service Provision

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia and to analyse reforms in government services (chapter 2). The aim is to work cooperatively to facilitate and encourage innovation in the delivery of services.

The fourth *Report on Government Services* was released in February 1999 (SCRCSSP 1999a). Reporting is an ongoing process, and each year the Steering Committee endeavours to build on developments in previous years. The 1999 Report:

- extended its scope to include medical general practice, mental health and rent assistance;
- included performance information on emergency management and breast cancer control for the first time, and added new indicators for children's services;
- improved the quality and comparability of data for vocational education and training, health, courts, corrective services, aged care, children's services and housing;
- enhanced the reporting on a range of existing indicators; and
- provided more contextual information to assist the interpretation of performance indicators.

The estimated cost to the Commission of assisting governments in the production of the 1999 Report was around \$1 million (compared with \$808 000 for the 1998 Report).

The Review is continuing to refine the methodology for measuring the performance of government services and to improve the comparability of the data in the Report on Government Services.

- The Review's research paper, *Superannuation in the Costing of Government Services*, which was released in September 1998, investigated the treatment of superannuation costs across jurisdictions and developed approaches to improve the accuracy and comparability of unit cost comparisons (SCRCSSP 1998b).
- In consultation with the Heads of Treasuries Accounting and Reporting Advisory Committee, the Review initiated an approach to including the cost of capital in unit cost data. The 1999 Report included a user cost of capital for vocational education and training, health, public housing and corrective services.
- The Review also began research on the treatment of payroll tax and the development of a range of approaches to improve the comparability of unit cost data (published in September 1999, (SCRCSSP 1999b)).

The Review is also expanding the dimensions of performance for which indicators are presented, particularly relating to quality. For example, the Review commissioned a consultancy to obtain client satisfaction information from people with disabilities and another consultancy to further develop outcome indicators for child protection and supported placements. In March 1999 the Review began research into the lessons of Australasian police agencies in undertaking activity-based measurement as a means of improving the quality of cost data (published in September 1999, (SCRCSSP 1999c)).

In September 1998 the Review published a second series of case studies examining the implementation of reforms in government services (SCRCSSP 1998a). The case studies documented how other governments are implementing reform in four areas and included some checklists for effective reforms based on the experience of the Review to date. The case studies examined the devolution of decision making in government schools in Victoria, competitive tendering and contracting for public hospital services in New South Wales, consumer funding and choice for services to people with disabilities in Western Australia, and the pricing of transcription services in Commonwealth courts.

In conjunction with the 1998 *Report on Government Services*, the Secretariat conducted a survey of the report's primary target audience, releasing the results in November 1998 (box B.2). The aims of the survey were to: assist jurisdictions to understand better how the Report is being used, and the costs and benefits of their involvement; inform all those involved in producing the Report of potential refinements and enhancements; and assess the extent to which the Report meets the broad objectives established by governments.

Performance monitoring of government trading enterprises

In October 1998 the Commission published a review of performance improvements in government trading enterprises over the period 1991-92 to 1996-97, tracking outcomes for consumers and users, employees and the community generally (PC 1998a). This report provided a concluding overview to a series of reports prepared under the auspices of the Steering Committee on National Performance Monitoring of Government Trading Enterprises since 1991 and for which the Commission provided secretariat and research services.

At the time of the disbandment of the Committee, the Commission indicated that it would continue to monitor government trading enterprises as part of its research activities. In July 1998 the Commission proposed, and sought agreement from jurisdictions, to use financial performance indicators derived from the ABS Government Finance Statistics collection. Delays in obtaining agreement to the approach and commitments to cooperate for a three-year period meant that a report

Box B.2 Feedback on the 1998 Report on Government Services

At the request of its Steering Committee, the Secretariat undertook a survey in 1998 of the Report's primary target audiences: report users, principally central and line agency officers responsible for strategic and policy planning in areas covered by the Review; and those who assisted in producing the Report.

The main findings from the respondent feedback were as follows:

- 70 per cent of respondents used the Report;
- 80 per cent or more of respondents in central agencies considered that the Report is 'important' or 'very important' for strategic and policy planning/evaluation and for identifying other jurisdictions with whom to share information on services;
- respondents who used the Report rated the relevance of its information as 'very good' (40 per cent of respondents) or 'adequate' (50 per cent); the credibility and objectivity of information were rated 'very good' or 'adequate' by one third of respondents and 60 per cent of respondents, respectively; and the timeliness of information was rated 'very good' by a quarter of respondents or 'adequate' by a further 70 per cent of respondents; and
- central agency users were generally more positive than line agency users about the usefulness of the Report and the quality of its information. For example, whereas 40 per cent central agency users rated the reporting of effectiveness and efficiency measures as 'very useful', the proportion for line agency users was around 25 per cent.

Source: Secretariat for the Review of Commonwealth/State Service Provision (1998).

for 1997-98 could not be produced. Project commencement will now coincide with the introduction of accrual-based accounting in the Government Finance Statistics, with data for 1998-99 available soon. Where adjustments can be made, the Commission also intends to report data for the previous year.

Benchmarking

The Commission released its international benchmarking report on Australian telecommunications services in March 1999. The study is part of a continuing program of research into the performance of economic infrastructure industries, which was commenced by the Bureau of Industry Economics. The report compared the performance of the Australian telecommunications service industry with that in eight other OECD countries. It improved on earlier studies by:

- using prices charged in the lowest price discount plan that is widely available and consistently offered in the relevant market, rather than ‘standard plan’ prices;
- covering a wide range of services for residential customers and different sized businesses; and
- comparing differences in regulatory approaches — such as universal service obligations, price controls, and interconnection/access arrangements to existing networks — because of the influence these can have on relative price performance.

The Commission has commenced a benchmarking study of regulatory arrangements for setting quality standards for drinking water in Australia and overseas.

The Commission’s other recent international benchmarking studies were undertaken as part of its inquiry work and are classified under that output.

- As part of its inquiry on Australia’s black coal industry, the Commission was asked to benchmark the productivity performance of Australian black coal mines against best practice in comparable international black coal mines and in analogous Australian metalliferous mines. The findings were included in the Commission’s inquiry report, which the Government released in February 1999.
- As part of its inquiry on progress in rail reform, the Commission was asked to report on international best practice in rail. The findings are included in the Commission’s final report (PC 1999d) which has yet to be released.

Quality indicators

Although assessments of quality are subjective, 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 Commonwealth/State Service Provision is guided by a Steering Committee. This Steering Committee consists of senior officers from each of the jurisdictions, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Productivity Commission. The Committee is, in turn, supported by 12 national Working Groups — totalling around 160 people who provide specialist knowledge on each service area — and draws on other bodies such as the ABS, the Australian Institute of Health and Welfare, and the Ministerial Council on Education, Employment, Training and Youth Affairs.
- The Commission’s report on the outcomes of government trading enterprise reforms between 1991-92 and 1996-97 benefited from the assistance of State and Territory Treasury officials.
- The Commission’s international benchmarking of Australian telecommunications services involved extensive consultation with industry, government agencies and consultants throughout the study, as well as independent referees. Interested parties were provided opportunities to examine the price comparison models used and their input data. The Commission also held a workshop in December 1998 to provide a forum to discuss methodology, the preliminary results and their interpretation.

A further indicator of the quality of the telecommunications study was the invitation for the Commission to attend an OECD workshop on international benchmarking of telecommunications because of its work in refining previous OECD methodology. Telecommunications businesses and regulators from member countries agreed to adopt the Commission’s approach in future OECD benchmarking.

The Commission was invited to brief interested researchers and government officials from Thailand and Japan about its measurement of the performance of government services, and responded to queries about methodology and data from people in Hong Kong, Canada, New Zealand and Kuwait during the year.

Timeliness

Publications arising from the Review of Commonwealth/State Service Provision in 1998-99 were completed on schedule. Although competing Review activities delayed commencement of the case studies examining the implementation of reforms in government services, the publication schedule was maintained.

The delay in commencing the reporting of financial performance indicators derived from the ABS Government Finance Statistics collection, and the reason for the delay, were reported above. The publication of the Commission's overview of government trading enterprise performance in September 1998 discharged the commitment made when the sixth (and final) report of the Steering Committee on National Performance Monitoring of Government Trading enterprises was released in April 1998.

The Commission's international benchmarking study of Australian telecommunications services was initially anticipated to be completed in June 1998. A widening in the scope of the benchmarking, refinements in price comparison methodology and extensive consultation with government, industry and consultants, delayed project completion until March 1999. These processes, however, helped to increase confidence in the final report. One consequence of the delay in project completion was that its price comparisons, undertaken in February 1998, became more dated. Nevertheless, the study provides a baseline for future measurement of the success of the Australian regulatory regime introduced in July 1997. It has also enabled the Commission to move quickly to update the results to June 1999, monitor changes in pricing structures and assess the feasibility of expanding the coverage of the international price comparisons to selected Asian countries. Publication of this work is expected at the end of 1999.

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.

Evidence relating to the Commission's work for the Review of Commonwealth/State Service Provision is available from a number of sources.

- Feedback from Steering Committee members — senior representatives from each State and Territory, the Commonwealth and local government — indicates that the 1999 Report was generally well received and that the reports on government services have become important inputs to budgetary negotiations and policy reviews.

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- The continuing support of the various jurisdictions in improving and enlarging the scope of the Review's reporting confirms its relevance, credibility and quality — features corroborated by the feedback survey on the 1998 Report (box B.2).
 - Performance information in the 1999 Report has been used extensively in parliamentary debates and questions by both government and opposition members. For example:
 - The Report prompted questions about policing and child care in the Commonwealth Parliament and school funding in the South Australian Parliament.
 - The performance information on policing, education, public housing, disability services, child care, public housing and hospitals from the Report was drawn on by Members and Ministers in the Victorian Parliament between March and June 1999.
 - In addition to promoting debate on education policy in the ACT (chapter 2), information from the Report — on public hospital operating costs, court efficiency, and public housing waiting lists and the mismatch between public housing stock and demand — featured in Assembly proceedings in the three months following its release.
 - The Review's work on the treatment of superannuation costs and the cost of capital is being incorporated in its performance reporting so as to better inform judgments which rely on comparisons of unit cost data.
 - The 1999 Report on Government Services received extensive media coverage. In the period since its release, there have been around 90 press articles drawing on the report and it has been mentioned 73 times and 13 times on radio and television, respectively. Nearly 1680 copies of the report were distributed by the Commission and a further 300 copies were sold through government bookshops. External clients had used the Commission's website to access the report more than 2500 times in the period to 30 June 1999.
 - Commission staff have been invited to speak to a wide range of groups about the work of the Review and its approach to performance measurement. Details of the 12 presentations are provided in appendix D.

The usefulness of the reports on government trading enterprises and Australian telecommunications services to the Commission's performance outcome objective is demonstrated by a number of indicators.

- For example, State Government officials reviewed the report on government trading enterprise performance before its release and commented favourably on it as one of the few attempts to document comprehensively the benefits of

microeconomic reform outcomes. The information base provided in the report has been used by the Commission in its inquiry on the impact of competition policy on rural and regional Australia and by the National Competition Council. The Victorian Parliamentary Secretary (Treasury and Multimedia) made extensive use of the report's findings in parliamentary debate on the Electricity Industry Acts (Amendment) Bill in November 1998. Around 1300 copies of the report were made available and the report was accessed 745 times on the Commission's website in 1998-99. The report received 20 mentions in the media in the two weeks following its release.

- The Australian Competition and Consumer Commission and the Australian Telecommunications Users Group advised that the Commission's international benchmarking report on Australian telecommunications services was helpful because it was the only source of objective information on the relative performance of the Australian industry. More than 1200 copies of the report have been distributed and the report was accessed 1185 times on the Commission's website in 1998-99. The report received about 140 mentions in the media, including coverage in editorials.

Regulation review activities

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR) which is part of the Productivity Commission. The activities of the ORR in the past year are covered in detail in a separate publication, *Regulation and its Review 1998-99* (PC 1999g).

The objective of the Commission's regulation review activities is to improve the effectiveness and efficiency of legislation and regulations developed and administered by Commonwealth departments and regulatory agencies. The Commission aims to assess Regulation Impact Statements (RISs) and undertake associated activities to a high standard, with advice that is timely and useful to government.

The resources used in producing this output in 1998-99 are estimated to have been:

- 15.6 staff years; and
- \$1.8 million on a cash basis, or \$1.9 million on an accrual basis.

Activities in 1998-99

The range of activities which the ORR is required to undertake is outlined in its charter (box B.3).

In advising on quality control mechanisms for making and reviewing regulation in 1998-99, the ORR:

- provided guidance to Commonwealth Government departments and agencies on appropriate terms of reference for nine legislation reviews undertaken as part of a four-year Australia-wide program under the Competition Principles Agreement to review and reform all legislation which restricts competition;
- in the process of examining RISs, gave advice on 543 different regulatory issues, of which 49 concerned amendments to taxation arrangements; and
- examined 19 RISs for Ministerial Councils, of which 17 had already been considered by national standard-setting bodies.

During the year, the ORR conducted 25 general training sessions in 17 different departments or regulatory agencies attended by some 360 Commonwealth officials.

The two main reports completed by the ORR were:

- *Regulation and its Review 1997-98*, released in December 1998, which contained the first comprehensive report on compliance with the Government's regulation review requirements; and

Box B.3 Charter of the Office of Regulation Review

In 1997 the Government directed that the ORR issue a charter outlining its role and functions. The elements of the ORR's charter outline its seven principal outputs. In brief, these are to:

- advise on quality control mechanisms for regulation making and review;
- examine and advise on Regulation Impact Statements (RISs) prepared by Commonwealth departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with the Commonwealth Government's RIS requirements;
- advise Ministerial Councils and national standard-setting bodies on regulation making;
- lodge submissions and publish reports on regulatory issues; and
- monitor reform developments in the States and Territories, and in other countries.

These functions are ranked in order of the Government's priorities and the ORR must concentrate its limited resources where they will have most effect. The ORR, together with the Treasury, advises the Assistant Treasurer in his role as the Minister responsible for regulatory best practice and the Minister for Financial Services and Regulation on legislative review matters.

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- *A Guide to Regulation (2nd Edition)*, which incorporated the Government's decision to strengthen the scrutiny and assessment of 'quasi-regulation' and to make such regulation more effective and accessible, was also published in December 1998. Quasi-regulation refers to a wide range of rules or arrangements — such as codes of conduct or advisory notes — by which governments influence businesses to comply, but which do not form part of explicit government regulation.

The annual report on compliance with the Government's regulatory requirements in 1998-99 takes the form of a separate report in the Productivity Commission's annual report series, *Regulation and its Review 1998-99* (see also box 3.4).

In monitoring regulatory reform developments around Australia and internationally this year, the ORR:

- convened a meeting with State and Territory officials to discuss regulatory best practice in Australian jurisdictions;
- in a range of relevant meetings with State and Territory officials, contributed to consideration of issues relating to mutual recognition, quasi-regulation and regulatory reform performance indicators;
- represented Australia at an OECD meeting on regulatory reform, covering reviews of reforms in the United States, Mexico, the Netherlands and Japan;
- represented Australia at several meetings with directorate officials from the European Union;
- met the Senior Adviser to the Prime Minister of Korea; and
- hosted for one week an official from South Africa who was in Australia to study regulatory reform principles.

Quality indicators

Reporting on quality indicators for the ORR is limited by the confidential nature of the advice it provides to Commonwealth departments and agencies, to the Assistant Treasurer and Minister for Financial Services and Regulation and to Cabinet. Its major activities in advising on RISs and legislative reviews typically involve interaction and iteration with sponsoring departments and agencies. An indirect indicator of the quality of the ORR's work in these activities, and in its educative and training activities, is the general improvement of agency compliance with the Government's regulatory review requirements. There is also mounting evidence that, as agencies have become better acquainted with RIS requirements, the quality of RISs presented to the ORR has improved.

Informal feedback from a number of agencies and the steady demand for training sessions also attest to the quality of the ORR's work.

A measure of quality assurance is also obtained through the ORR's continuing interaction with its counterparts in the States and Territories. This helps to ensure it keeps abreast of regulatory reform matters in Australia and best-practice approaches to regulation review.

A further indicator of the quality of the work of the ORR is that it is not unusual for other countries to seek its advice when they are assessing their own regulatory processes. Australia's reputation for being at the forefront of regulatory reform is also due to the ORR's participation in international forums such as OECD meetings.

Timeliness

The demand for RIS assessments is externally driven and timing is often determined by Cabinet processes. While the ORR was able to respond to less complex matters within a day when priorities permitted, three to five days was the norm. Additional time for assessment was required when the policy proposal raised complex regulatory issues and the RIS was of poor quality or the agency had not had prior consultations with the ORR.

The Government requires the ORR to advise the Minister for Financial Services and Regulation and the responsible portfolio Minister on draft terms of reference for legislation reviews. The suggested timing for consultation with the ORR on draft terms of reference is a minimum of three months before a review is expected to commence. Although consultations on two of the nine 1998-99 reviews occurred with lesser notice, the ORR responded promptly.

Difficulties in obtaining RIS compliance information from Commonwealth departments and agencies delayed the anticipated completion of *Regulation and its Review 1997-98* by around one month and the federal election delayed clearance and publication of the second edition of the *Guide to Regulation*.

Indicators of usefulness

The usefulness of the Commission's regulation review activities in ensuring better regulatory outcomes, generating greater understanding within agencies of the Government's 'best practice' regulatory requirements and enhancing community understanding of regulatory issues, is demonstrated by a range of indicators.

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- The ORR's assessment of RIS analysis has been used by agencies in the Cabinet coordination process to elicit information about the costs and benefits of regulatory proposals. On occasions, this has resulted in proposals being deferred until they have been developed more fully.
 - Some regulatory proposals have been changed in the light of information obtained, and the analysis undertaken, during the RIS process. In some cases, options suggested by the ORR for consideration have become the preferred option.
 - The Senate Standing Committee on Regulations and Ordinances has found RISs to be a 'valuable source of information' and that they complement its work of parliamentary scrutiny (box B.4).

Box B.4 Regulation impact statements complement parliamentary scrutiny of legislation

The Commission met the Senate Standing Committee on Regulations and Ordinances in March 1999 to discuss activities reported in *Regulation and its Review 1997-98* and, in particular, the ORR's role in vetting Regulation Impact Statements (RIS).

In its report to the Senate on that meeting, the Committee noted that the 'establishment of RIS requirements has been one of the most significant recent developments in quality control of legislative instruments'. The Government endorsed the requirements for RIS, as published in the ORR's Guide to Regulation, in September 1997.

Since then the Committee has scrutinised the RIS, which are tabled, in addition to the Explanatory Statement, with all legislative instruments affecting business or competition.

The Committee has found the RIS to be of considerable assistance in its scrutiny of legislative instruments, despite the Committee having different priorities to the ORR. The Committee scrutinises delegated legislation to ensure compliance with high standards of personal rights and parliamentary propriety, whereas the ORR responsibilities are for the most effective and efficient regulations from an economy-wide perspective. These different objectives are by no means the same, but they are complementary and RIS have enhanced the ability of the Committee to carry out its functions.

The Committee has found RIS to be particularly useful because they are more detailed and thorough than Explanatory Statements in their background information. Also, RIS are structured in such a way that may reveal areas of especial concern to the Committee (SSCRO 1999, p. 6655).

The Committee also noted that:

The success of the Committee in its core function of scrutiny of legislative instruments is due to the fact that Ministers know that it operates in a non-partisan fashion and does not question policy. The Committee finds RIS to be a valuable source of information, but it is not appropriate for it to become involved in policy development. The ORR is a specialist agency with the mandate to oversee the entire RIS process and liaison with the ORR along the lines of our recent meeting with the [Productivity Commission] will enable the Committee to be aware of any relevant developments. Also, the Senate legislation committees would scrutinise RIS in the course of their work (SSCRO 1999, p. 6656).

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- Regulation Impact Statements tabled with Explanatory Statements to Bills have provided greater transparency of the reasoning behind regulatory decisions so that the Parliament and the community are better informed. Parliamentarians have drawn on the Statements in debate.
 - The ORR's assessment of national RISs is valued by Ministerial Councils and National Standards Setting Bodies. The COAG Committee of Regulatory Reform seeks the ORR's input on significant regulatory matters. The impartiality of the Commission is also a factor in the ORR's standing with the States and Territories on these matters.
 - Around 850 copies of *Regulation and its Review 1997-98* were distributed. The report attracted media attention, including an editorial in *The Australian*. The report was accessed more than 750 times on the Commission's website in the period to July 1999.
 - Around 2000 copies of the second edition of *A Guide to Regulation* were distributed for use by policy and regulatory officers in all Commonwealth Government departments, agencies, statutory authorities and boards and to other people interested in regulatory reform. Users of the Guide were invited to contact the ORR at any stage for more information or assistance in preparing a Regulation Impact Statement.

Competitive neutrality complaints activities

The Commonwealth Competitive Neutrality Complaints Office (CCNCO) is an autonomous office located within the Commission. As specified in the Productivity Commission Act and the *Commonwealth Competitive Neutrality Policy Statement* of June 1996, the role of the CCNCO is to:

- receive and investigate complaints on the application of competitive neutrality to Commonwealth government businesses, and make recommendations to the Treasurer on appropriate action; and
- provide advice and assistance to agencies implementing competitive neutrality, including undertaking research on implementation issues.

The CCNCO aims to finalise most investigations, and report to the Treasurer, within 90 days of accepting a complaint, and to undertake reporting and associated activities that are of a high standard and useful to government.

The Commission resources used in producing this output in 1998-99 are estimated to have been:

- 1.0 staff years; and
- \$0.16 million on a cash basis, or \$0.17 million on an accrual basis.

Activities in 1998-99

Complaints activity

The CCNCO received six written complaints during the year. Two complaints related to the same matter and were investigated and reported on together. The other complaints did not require formal investigation. Nevertheless, where appropriate, the CCNCO took action to ensure that relevant issues were drawn to the attention of the relevant Minister or agency (box B.5).

Report on Counter Terrorist First Response Services

In September 1998 the CCNCO received separate written complaints — from the Board of Airline Representatives of Australia and the Airports Association of Australia — about the provision of Counter Terrorist First Response Services (CTFR) by the Australian Protective Service. The complainants claimed that the Australian Protective Service should not apply competitive neutrality policy to its charges for CTFR services at airports. They contended that CTFR did not face sufficient competition to constitute a business activity under the competitive neutrality guidelines. The complainants also claimed that, since the Government mandated that the Australian Protective Service provide CTFR services, it should fund the increased costs which may result from Australian Protective Service provision compared with provision of the service by private operators.

The CCNCO investigated the complaints and considered whether competitive neutrality should apply to CTFR services and whether the appropriate level of charges had been applied. It recommended that:

- competitive neutrality charges continue to be applied to the Australian Protective Service's CTFR function;
- so long as the Australian Protective Service continues to achieve a commercial rate of return (pre-tax) on its CTFR activity, its charges are sufficient to meet capital costs and, accordingly, there was no need to add further charges to meet interest and corporate tax obligations; and
- when the Commonwealth Treasury next reviewed its publication, *Competitive Neutrality — Guidelines for Managers* and in its regular policy advice to agencies, it should seek to remove scope for misinterpretation about adjustments to agencies' prices for corporate tax and interest payments.

The CCNCO also commented that a statement of the Government's reasons for restricting the provision of CTFR to the Australian Protective Service or police forces would clarify whether or not all of the costs of CTFR services should be recovered from airport users.

Box B.5 **Competitive neutrality complaints not formally investigated**

In October 1998 the National Competition Council referred a complaint to the CCNCO from a Queensland company which delivers unaddressed mail. The complaint concerned Australia Post's exemption from State and Territory traffic regulations which prevent motor cycles from riding on the footpath. The company could not obtain a similar exemption.

- The CCNCO did not conduct an investigation on the complaint because it related to State traffic law over which the Commonwealth has no jurisdiction. However, the CCNCO wrote to the Treasurer suggesting that, given the Commonwealth's interest in postal reform, the Commonwealth may wish to provide information to the States on the benefits to postal competition of allowing other operators access to footpaths. The States could then balance these benefits against the costs of access when they review their legislation.

In February 1999 Ciptanet International lodged a written complaint alleging that universities it was competing against for AusAid funded projects were not complying with competitive neutrality principles in pricing their bids.

- The CCNCO did not conduct an investigation on the complaint because the head contractor appointed by AusAid to conduct the tender was not a Commonwealth Government business, and hence not within the jurisdiction of the CCNCO. However, the CCNCO wrote to AusAid informing it that Commonwealth bidders for Commonwealth contracts are required to certify that their bid complies with competitive neutrality, and that this requirement should also apply to tenders let by head contractors appointed by AusAid, as well as to tenders let directly by AusAid.

In May 1999 the owners of the Canberra airport lodged a written complaint about the pricing behaviour of Airservices Australia at Canberra airport. The airport owners alleged that the charges being levied on commercial users for Transport Navigation Services and Australian Rescue Fire Fighting Services were being set on an inappropriate basis, with the effect that commercial users were subsidising services provided to the defence forces.

- The CCNCO did not conduct a full investigation because the core issue in this complaint — the RAAF exemption from Transport Navigation Services and Australian Rescue Fire Fighting Services charges — was under review by Airservices Australia and the Department of Defence. In addition, Airservices Australia demonstrated that its charges to commercial users did not include the costs of services provided to Defence.

In June 1999 Dove Personnel, a job placement company, lodged a complaint about the operation of the Commonwealth Government's Job Network.

- The CCNCO ascertained that Dove's concerns related to aspects of the Job Network tendering process conducted by the Department of Employment, Workplace Relations and Small Business, rather than competitive neutrality issues. Accordingly, it advised Dove that there are no grounds to undertake a competitive neutrality investigation. Dove has indicated that, in conjunction with its industry association, it would make representations on the matter to the relevant Minister.

Advice on implementing competitive neutrality

A significant component of the CCNCO's output in 1998-99 comprised formal and informal advice to agencies on their competitive neutrality obligations and assistance to them in implementing competitive neutrality policy. In addition to telephone advice and ad hoc meetings — averaging three to four contacts a week — this output also included the CCNCO's participation on working groups to progress the implementation of competitive neutrality for Australian Hearing Services and the Commonwealth Rehabilitation Service. The CCNCO is also an active participant in the Competitive Neutrality Roundtable — a working group of competitive neutrality officials from the Commonwealth, States and Territories.

Research

In response to a need for detailed implementation advice, the CCNCO released research papers on cost allocation issues and rate of return issues during 1998-99. In addition, it circulated to interested parties a paper which compared the competitive neutrality arrangements of the different jurisdictions.

Quality indicators

The investigation of complaints relating to the provision of counter terrorist first response services was the first time the procedures developed by the CCNCO had been put into practice. The satisfaction of the complainants and the Australian Protective Service with the procedures is one indicator of quality in the way the CCNCO went about its investigation.

Quality assurance processes in place for this activity include the CCNCO's participation on working groups to progress the implementation of competitive neutrality, its participation in the Competitive Neutrality Roundtable and the feedback obtained from target audiences on its research publications.

The usefulness of the CCNCO's outputs across jurisdictions (reported below) is another indicator of quality.

Timeliness

The CCNCO received the two complaints about the provision of counter terrorist first response services by the Australian Protective Service in September 1998 and reported in December 1998 — thereby meeting its 90 day reporting target.

The research paper on cost allocation and pricing took three months longer than initially anticipated, principally because of the decision to provide time for a second round of comments from State government officials before publication. Completion of the research paper on rate of return issues was deferred on a number of occasions in order that higher priority competitive neutrality activities could be undertaken.

Indicators of usefulness

The CCNCO is unable to report on the outcome of its report on the Counter Terrorist First Response Services. The Minister for Financial Services and Regulation wrote to the Attorney-General requesting a response to the recommendations in the report. Although the Commonwealth Government has a commitment to respond within 90 days of receiving a CCNCO report, no response had been made as at 8 October 1999.

The CCNCO received considerable feedback indicating that the research papers it released have contributed to better policy making and public understanding.

In relation to the cost allocation and pricing paper:

- the National Competition Council endorsed the ‘avoidable cost’ methodology advocated in the paper and summarised the paper in its 1997-98 Annual Report;
- upon release of the paper, one State changed its competitive neutrality guidelines to allow the avoidable cost methodology to be used by agencies when determining a competitively neutral level of prices;
- the NSW Independent Pricing and Regulatory Tribunal circulated the paper to its local government working groups, and cited the paper in its publications;
- the Government Prices Oversight Commission in Tasmania endorsed the paper as the approach it would adopt for cost allocation;
- the CCNCO has been contacted by a number of local government officials around Australia who have said the paper was useful to them in implementing competitive neutrality and, more generally, in considering costing and pricing issues for their businesses. In some cases, the paper has been distributed to line managers as a reference document for understanding costing issues;
- a number of Commonwealth agencies have indicated that they found the paper useful in considering pricing issues for their businesses, as well as for implementing competitive neutrality; and
- in addition to the 500 printed copies circulated, the paper has been accessed more than 500 times at the Commission’s website.

The rate of return paper:

- has been useful in assisting the CCNCO to deal with rate of return issues as they have arisen in complaints and in providing advice to agencies;
- has received positive comment from State and Territory government officials at meetings of the Competitive Neutrality Roundtable; and
- has been used by the State Governments of Tasmania, South Australia, and Western Australia to assist with rate of return issues outside the competitive neutrality area.

The paper comparing competitive neutrality regimes in each jurisdiction was circulated widely within government circles and a number of jurisdictions have commented that it has assisted them to develop aspects of their competitive neutrality regimes.

Supporting research and activities and annual reporting

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

The Commission aims to produce research and associated reports to a high standard which are timely, useful to government and raise community awareness of microeconomic reform issues.

The resources used in producing this output in 1998-99 are estimated to have been:

- 50 staff years; and
- \$6.1 million on a cash basis, or \$6.4 million on an accrual basis.

Activities in 1998-99

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

- research to meet the Commission's statutory annual reporting obligations, comprised:
 - its annual report for 1997-98, which focused on rationales for microeconomic reform, what is known about the benefits, and ways of approaching adjustment problems, and also outlined the roles and functions of the new Commission; and

- three companion publications on trade and assistance issues, regulatory developments, and microeconomic reform by Australian governments in the year;
- 11 research reports, comprising Commission research papers, staff research papers and staff working papers;
- four submissions to other review bodies;
- two volumes of proceedings from workshops/conferences conducted or co-sponsored by the Commission; and
- other projects associated with inquiry and research support, conference papers, assistance to other government departments, and journal articles.

The research publications produced in 1998-99 are listed in box B.6. Details of Commission research papers, staff papers and the 70 presentations given by the Chairman, Commissioners and staff in the year are provided in appendix D. Research projects under way at the end of the year are listed in box B.7.

Box B.6 Supporting research program and annual reporting: 1998-99 publications

Annual report suite of publications

Annual report 1997-98	Regulation and its review 1997-98
Trade and assistance review 1997-98	Microeconomic reform by Australian governments 1997-98

Conference proceedings

Microeconomic reform and productivity growth	Industry competitiveness, trade and the environment
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Submissions to other review bodies

Review of NSW Rural Assistance Act	Review of price controls on Telstra
Tasmanian dairy review	Victorian dairy review

Research reports

Aspects of structural change in Australia	Youth wages and employment
Design principles for small business programs and regulations	The new economy? A new look at Australia's productivity performance
Australia's restrictions on trade in financial services	APEC early voluntary sectoral liberalisation
Trade-related aspects of intellectual property rights	Network modelling approach to air service agreements
Minimum wages literature survey	Labour market research agenda
Feedback on waterfront benchmarking	

Quality indicators

The quality of the Commission's supporting research projects is monitored through a series of internal and external checks. Proposals for research are considered against current research objectives and themes; their capacity to contribute policy-relevant information; other research under way; whether the Commission is best placed to conduct the research; and available resources. Research is monitored internally as it progresses. Seminars are held to expose research as it develops.

Box B.7 Supporting research program: 1999-2000 projects

Productivity and the structure of employment #	Structural adjustment policy: workshop proceedings #
Submission to the National Competition Policy Review of Pharmacy Legislation #	Policy implications of the ageing of Australia's population: conference proceedings #
Privatisation, regulation and reform: 1998 Industry Economics Conference proceedings #	Modelling the regional impacts of National Competition Policy reforms
Private hospital industry	Structural adjustment: key policy issues
Single-desk marketing: the economic issues	Microeconomic reform and Australian productivity: exploring the links
Genetically modified products: analysis of issues in development and use	Unemployment and re-employment of displaced workers
Links between industrial relations practices and labour productivity growth	Productivity among Australian railroads
Links between government assistance and firm performance	The growth and decline of employment within firms
The role of training and innovation in workplace performance	Modelling multilateral liberalisation of services trade
Restructuring the delivery of Melbourne's health services	Enhancements to the Global Trade Analysis Project (GTAP) framework
Measuring barriers to trade in selected services	Incorporating foreign direct investment in the GTAP framework
Liberalisation of foreign investment regimes: progress and options for further reform	Regulation, competition and industry structure: 1999 Industry Economics Conference proceedings
Productivity in the Australian retail and wholesale sectors	Labour market inequality in Australia: trends, causes and consequences *
Innovation, productivity and profitability in Australian enterprises *	

Published after 30 June 1999. * Collaborative projects. Information on a range of research projects is provided in the Commission's *Digest of Current Research Projects July 1999*.

Where appropriate, draft research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. While referees provided a range of constructive criticism, they were generally complimentary about the overall standard of the Commission's work. The incorporation of responses to referees' comments enhanced the quality of the final research outputs.

Another form of quality assurance and measure of relevance is the Commission's practice of bringing leading policy analysts and researchers, including international experts, to workshops and conferences which the Commission either conducted or co-sponsored under its research program during the year (chapter 3).

Timeliness

Around two thirds of the research projects listed in box B.6 were completed on or very close to anticipated schedules. Government-commissioned projects take priority and the Commission allocates its resources accordingly. Decisions to divert staff temporarily to higher priority work, redefinition of project scope and delays in obtaining data and referee comments, were common reasons for extended completion times for research projects in the past year.

Indicators of usefulness

To help ensure the relevance of the Commission's program of supporting research, its selection of research themes and projects is guided by consultations with a range of government, industry and community interests. For example, the staff research paper on youth wages (Daly et al 1998) arose from specific requests by government departments and other organisations.

Continuing what is now an annual practice, the Commission invited a range of government departments and agencies, peak national employer bodies, unions, and community welfare and environmental groups to meet early in 1999 to discuss current and future research. Meetings are held with academics on an ongoing basis. Consultations with Commissioners and staff also contribute to the identification of broad research areas.

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 issues is demonstrated by a range of indicators.

For example, the Staff Working Paper of October 1998, *Youth Wages and Employment*, was:

- tabled as a contribution to the policy debate at the Commonwealth, State and Territory Labour Ministers Council meeting in November 1998;
- discussed at the Productivity Commission/Centre for Economic Policy Research Workshop held in November 1998 which was attended by 40 invited participants from government, universities, business, union and community groups;
- used by the Australian Industrial Relations Commission in its junior rates inquiry, where it found that ‘a discounted pay rate for entry level work continues to be necessary in the areas in which employment under junior rate classifications is most concentrated’ (AIRC 1999a);
- used in briefing material prepared by Parliamentary Library staff for Members and Senators on the Workplace Relations Legislation Amendment (Youth Employment) Bill 1998; and
- used in parliamentary proceedings, for example: by the Prime Minister and the Minister for Employment, Workplace Relations and Small Business in answer to questions, in a Ministerial Statement on the AIRC report, and by government and opposition members in debating the Workplace Relations Legislation Amendment (Youth Employment) Bill 1998 in the Commonwealth Parliament; by the Victorian Premier; and in debate on the Industrial and Employee Relations (Workplace Relations) Amendment Bill in the South Australian Parliament in May 1999.

The findings in the Staff Working Paper of May 1999, *The New Economy? A New Look at Australia’s Productivity Performance*, were:

- used in parliamentary proceedings, for example, by the Prime Minister, the Treasurer and Minister for Finance and Public Administration in answer to questions, Opposition members and the Chair of the House of Representatives Standing Committee on Economics, Finance and Public Administration;
- used in domestic and international commentary and as an input to OECD briefings on the performance of the Australian economy; and
- the subject of an Economic Society of Australia NSW Branch forum on Australia’s productivity performance and a feature article in the *Australian Financial Review*.

More generally, important means by which research projects contribute to public debate are through media coverage, the dissemination of reports to key interest groups and the ready accessibility of reports on the Commission’s website. Most of the 1998-99 publications received media coverage upon their release. The study on

youth wages, the annual report and the report on regulatory developments were the subject of editorials in major newspapers. In total, more than 12 700 printed copies of 1998-99 research publications were made available. To 30 June 1999, external clients had accessed the index pages of those reports on the Commission's website more than 9200 times.

C Commissioned projects

The nature and breadth of the public inquiries and other work which the Commission is requested by governments to undertake, and the acceptance rate of the Commission's recommendations, provide some broad indicators of the quality and impact of Commission work.

This appendix updates information provided in the previous annual report of the Productivity Commission (and those of the Industry Commission) on public inquiries and other projects commissioned by the Government. It includes terms of reference for new inquiries and projects and the principal findings and recommendations from reports which have been released, together with government responses to those reports.

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides details of projects which the Government commissioned during the year and government responses to reports completed in 1998-99 and previous years. It also reports on commissioned reports released and government responses to reports since 30 June 1999.

This appendix is structured as follows:

- terms of reference for new government-commissioned projects;
- reports released and, where available, government responses; and
- government responses to Industry Commission reports from previous years.

Table C.1 summarises activity since the Commission's 1997-98 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/recommendations</i>	<i>Government response</i>
Inquiries					
14-2-95	Packaging and Labelling	IC AR 94-95	IC Report No. 49 signed 14-2-96	IC AR 96-97	page 133
31-8-95	Implications for Australia of Firms Locating Offshore	IC AR 94-95	IC Report No. 53 signed 28-8-96	IC AR 96-97	page 134
29-1-96	The Machine Tools and Robotics Industries	IC AR 95-96	IC Report No. 52 signed 13-8-96	IC AR 96-97	page 133
29-1-96	Book Printing	IC AR 95-96	IC Report No. 54 signed 23-10-96	IC AR 96-97	page 134
23-9-96	Private Health Insurance	IC AR 96-97	IC Report No. 57 signed 28-2-97	IC AR 96-97	page 135
17-1-97	Ecologically Sustainable Land Management	IC AR 96-97	IC Report No. 60 signed 27-1-98	page 120	none to date
9-7-97	Telecommunications Equipment, Systems and Services	IC AR 96-97	IC Report No. 61 signed 9-4-98	page 124	page 125
9-7-97	The Australian Black Coal Industry	IC AR 96-97	PC Report No. 1 signed 3-7-98	page 116	page 118
9-12-97	International Air Services	PC AR 97-98	PC Report No. 2 signed 11-9-98	page 126	page 129
26-6-98	Pig and Pigeon Industries: Safeguard Action	PC AR 97-98	PC Report No. 3 signed 11-11-98	page 114	page 115
13-7-98	Nursing Home Subsidies	PC AR 97-98	PC Report No. 4 signed 13-1-99	page 118	page 120
5-8-98	Progress in Rail Reform	PC AR 97-98	PC Report No. 6 signed 5-8-99	not yet released	na
25-8-98	Implementation of ESD	PC AR 97-98	PC Report No. 5 signed 25-5-99	not yet released	na
26-8-98	Australia's Gambling Industries	PC AR 97-98	In progress	na	na
31-8-98	Impact of Competition Policy on Rural and Regional Australia	PC AR 97-98	PC Report No. 8 signed 8-9-99	not yet released	na
23-2-99	International Telecommunications Market Regulation	page 106	PC Report No. 7 signed 23-8-99	not yet released	na
4-3-99	Broadcasting	page 107	In progress	na	na
12-3-99	International Liner Cargo Shipping	page 108	PC Report No. 9 signed 15-9-99	not yet released	na

Other commissioned projects

23-1-97	Work Arrangements in the Australian Meat Processing Industry	na	PC report released 9-10-98	page 110	page 111
23-1-97	Work Arrangements on Large Capital City Building Projects	na	PC report released 24-8-99	page 130	page 132
31-7-98	Battery Eggs Sale and Production in the ACT	PC AR 97-98	PC report released 3-11-98	page 112	page 113
19-5-99	The Environmental Performance of Commercial Buildings	page 109	In progress	na	na

na not applicable

Note: References to previous annual reports (AR), inquiry and other reports are to those of the Industry Commission (IC) and the Productivity Commission (PC).

Terms of reference for new projects

This section presents the terms of reference for commissioned projects received since the Commission's annual report for 1997-98 which are in progress or for which the report has not yet been released.

International telecommunications market regulation

On 23 February 1999 the Assistant Treasurer referred international telecommunications market regulation for inquiry and report within six months.

The Commission was asked to examine and report on:

- the various settlement arrangements which exist in the international telecommunications market (for example accounting rates and internet peering models) with a focus on any emerging arrangements in the international carriage services component of that market;
- whether international agreements or asymmetric national policies concerning market conduct and market structure may give rise to distortions or mispricing of the above settlement arrangements, including a discussion of the welfare implications for representative market participants;
- the competitive conduct and investment behaviour of Australian firms in the international telecommunications market both domestically and internationally (for instance their participation in global alliances and new infrastructure investment) and whether any linkages may be drawn with prevailing international settlement arrangements;
- community benefits from reform of settlement arrangements, examining both the domestic and international components of the international telecommunications market, including:
 - benefits attributable to previous reform of settlement arrangements;
 - benefits attributable to increased domestic competition, especially since 1 July 1997;
 - potential benefits from further reforms; and
 - any evidence on the effect of foreign policies on pricing and market access on Australian net traffic flows; and
- options for reform, including those appropriate for consideration in the context of future GATS negotiations for telecommunications from the year 2000.

The Commission was to hold public hearings for the purpose of the inquiry.

The Commission signed its final report on 23 August 1999.

Broadcasting

On 4 March 1999 the Treasurer referred the Broadcasting Services Act and related legislation for inquiry and report within twelve months. The inquiry stems from the Government's commitment under the Competition Principles Agreement to review legislation for its anticompetitive effects and covers the *Broadcasting Services Act 1992* (including the 1998 digital conversion amendments), *Broadcasting Services (Transitional Provisions and Consequential Amendments) Act 1992*, *Radio Licence Fees Act 1964* and the *Television Licence Fees Act 1964*. (The Commission is not examining legislation establishing publicly owned broadcasters.)

The Commission is to advise on practical courses of action to improve competition, efficiency and the interests of consumers in broadcasting services. In doing so, the Commission is to:

- focus particular attention on balancing the social, cultural and economic dimensions of the public interest and have due regard to the phenomenon of technological convergence to the extent that it may impact upon broadcasting markets; and
- have regard to the Commonwealth's analytical requirements for regulation assessment, including those set out in the Competition Principles Agreement, which specifies that any legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs and if the objectives can be met only through restricting competition.

The Commission is to:

- identify the nature and magnitude of the social and economic problems that the legislation seeks to address;
- clarify the objectives of the legislation;
- identify whether and to what extent the legislation restricts competition;
- identify relevant alternatives to the legislation, including non-legislative approaches;
- analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the legislation and alternatives;
- identify the different groups likely to be affected by the legislation and alternatives;

-
- determine a preferred option for regulation, if any, in light of the objectives set out above; and
 - examine mechanisms for increasing the overall efficiency of the legislation and, where it differs, the preferred option.

The Commission is to hold hearings and release a draft report. The Government intends to release and respond to the Commission's final report within six months of receiving it.

International liner cargo shipping: a review of Part X of the *Trade Practices Act 1974*

On 12 March 1999 the Assistant Treasurer referred Part X of the *Trade Practices Act 1974* and associated regulations to the Commission for inquiry and report within six months.

The Commission was to report on the appropriate arrangements for regulation of international cargo shipping services, taking into account the following objectives:

- legislation/regulation should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation cannot be achieved more efficiently through other means, including non-legislative approaches;
- regard should be had to the effects on: the access of Australian exporters to competitively priced international liner cargo shipping services that are of adequate frequency and reliability; public welfare and equity; economic and regional development; consumer interests; the competitiveness of business including small business; and efficient resource allocation; and
- the Government's commitment to accelerate and strengthen the microeconomic reform process, including through improving the competitiveness of markets, particularly those which provide infrastructure services, in order to improve Australia's economic performance and living standards.

In making assessments in relation to these matters, the Commission was to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement.

The Commission was to:

- identify the rationale for Part X, quantifying issues as far as reasonably practical;
- assess whether Part X satisfies the rationale identified;
- identify if, and to what extent, Part X restricts competition;

-
- identify relevant alternatives to Part X, including the authorisation processes in Part VII of the Trade Practices Act and non-legislative approaches, and the extent to which these would achieve the rationale identified;
 - analyse and, as far as reasonably practical, quantify the benefits, costs, impacts (including with respect to predictability of outcome on the standards of shipping services provided), and cost effectiveness of Part X and alternatives to it;
 - identify the liner cargo shipping regimes of Australia's major trading partners and determine the compatibility of alternatives, and Part X, with those regimes;
 - identify the different groups likely to be affected by Part X and alternatives to it;
 - determine a preferred option for regulation, if any, in light of objectives set out above; and
 - examine possible mechanisms for increasing the overall efficiency of Part X.

The Commission was to hold hearings for the purpose of the inquiry. The Government would consider the Commission's recommendations and announce its response as soon as possible after the receipt of the Commission's report.

The Commission signed its final report on 15 September 1999.

The environmental performance of commercial buildings

At the request of the Minister for Industry, Science and Resources, the Assistant Treasurer asked the Commission to undertake a research study examining the performance of commercial buildings and analyse any impediments to better performance of such buildings and how to overcome them. The study was foreshadowed by the Minister in May 1999 when announcing the Building and Construction Industries Action Agenda (Minchin 1999b).

The Commission is to:

- identify the indicators of building performance used by building owners and/or tenants (such as indicators of the extent to which a building is 'fit for purpose', as well as its environmental performance);
- use case studies to assist in an evaluation of the performance of buildings, as well as the factors affecting building performance within the context of design, construction and subsequent use;
- analyse factors influencing the extent to which environmentally sustainable design features are incorporated at the building design, construction, maintenance and management stages;

-
- examine the current incentives for developers to incorporate environmentally sustainable building design features and their impact on whole-of-life building costs; and
 - identify any impediments to better performance of buildings, including innovation in building design and construction.

The Commission is to report by November 1999.

Reports released by the Government

This section summarises the main findings and recommendations of commissioned reports of the Industry Commission and Productivity Commission which were released by the Government during 1998-99. It includes terms of reference for those projects commenced and completed in the year and, where available, government responses.

Work arrangements in the Australian meat processing industry

Labour Market Research Report released by the Commission 9 October 1998.

Key findings of the report were that:

- Significant changes in work arrangements have occurred in the past few years. Although concentrated among large, export-oriented plants, changes have occurred in all segments of the industry.
- Greater competition, both internationally and domestically, is the major factor driving change. Changes in industrial relations legislation have facilitated improved work arrangements by providing a framework for bargaining at the workplace.
- There has also been a decline in the seasonal nature of the industry, allowing employment to become more permanent, compared with traditional 'daily hire at the gate'.
- The most important change in work arrangements has been a move away from the highly prescriptive tally systems in Federal and State industry awards. These are complex piecework payment systems based on inputs (number of head for slaughter tallies and weights for boning tallies). They distort incentives to increase throughput (yield), as unit wage costs increase once specified throughput levels are exceeded, and have been a source of friction in the workplace.

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- It appears that the tally systems prescribed in industry awards are no longer widely used. Increasingly, firms are basing remuneration on time worked and/or modified incentive payment systems. However, many firms — particularly the smaller ones — still operate tally systems that continue to constrain performance.
 - A range of penalties and allowances exaggerate the effects of input-based incentive systems. For example, shift penalties are applied on base rates of pay, which are then compounded by tally premiums. However, there are examples of enterprise agreements where penalties and allowances have been rolled into annualised pay.
 - Award restrictions on ordinary hours mean that increasing the range and number of hours worked can involve significant overtime penalties. In many enterprise agreements, ordinary hours of work have now been expanded.
 - Traditional seniority determined hiring, firing, and promotion protocols impede management’s ability to deploy workers according to ability. It remains an issue in some enterprises, although it is becoming less significant.
 - An emphasis on training has not been a feature of this industry. However, it is getting more attention as seniority and daily hire practices become less common, and employment becomes more permanent.
 - While there has been significant change in the industry, further improvements will be needed if the industry is to meet the challenge of increasingly competitive international markets.

Government response

The Minister for Workplace Relations and Small Business drew extensively on the Commission’s findings when signalling the Government’s approach to further changes to the award simplification provisions of the Workplace Relations Act and, in particular, the intention to seek the removal of tallies from the list of allowable matters and to remove the matters of detail and process in the Federal Meat Industry Processing Award ‘that are more appropriately dealt with by agreement at the workplace or enterprise level’ (Reith 1998).

Battery eggs sale and production in the ACT

Productivity Commission Research Report completed 19 October 1998, report released 3 November 1998.

In September 1997 the ACT Legislative Assembly passed legislation to ban the production and sale in the ACT of eggs produced by hens housed in battery cages and required the labelling of egg cartons sold in the ACT to indicate the production system used to produce the eggs.

One effect of the legislation would have been to restrict competition in the supply of eggs to the ACT. This triggered provisions in the Competition Principles Agreement which require governments to undertake public benefit tests of legislation restricting competition to assess whether the community benefits associated with the restrictions outweigh the costs. The study was undertaken following the Treasurer's agreement to an ACT Government request that the Commission carry out these public benefit tests on its behalf.

The framework for undertaking public benefit tests requires that all relevant factors — not just *economic* benefits and costs — be taken into account. The Commission's key findings were that:

- The ACT legislative amendments would lead to some improvement in layer hen welfare, particularly in the longer term. The extent of the improvement, and the benefits that would be derived by the ACT community and other Australians, was not amenable to reliable measurement. This, in part, reflected the fact that the proposed ban on battery eggs raised ethical, as well as economic issues.
- The implementation of a ban on the production and sale of battery hen eggs in the ACT would give rise to two significant economic costs:
 - costs borne by consumers because of higher egg prices were estimated to be the equivalent of an annual perpetuity of about \$650 000; and
 - adjustment costs resulting from the premature retirement of productive assets were estimated to be the equivalent of an annual perpetuity of no more than \$290 000.

There would also be a minor increase in ACT Government administration and enforcement costs.

- The ban on battery hen eggs could result in the closure of the major egg producer in the ACT and an increase in egg production in New South Wales. This would be reflected in higher employment in the New South Wales egg industry and a fall in the ACT. Overall, there could be a small increase in

aggregate employment in the industry because of the higher labour intensity of alternative egg production systems compared with battery cage systems.

- Any consumer health, environmental or occupational health and safety effects stemming from the ban would be negligible.
- As most of the costs would be borne by the ACT, it was appropriate for the ACT Government to judge whether the community benefits from banning the production and sale of battery eggs outweighed the costs. The benefits associated with the restriction to competition resulting from the legislative amendment could be viewed as outweighing the costs if they were assessed to exceed the cost of an annual perpetuity of approximately \$940 000.
- Many consumers have a poor understanding of the animal welfare implications of the different egg production systems. Labelling of egg cartons to indicate the manner in which the eggs have been produced would benefit some of these consumers. The extent of this benefit could not be quantified, although the associated costs were likely to be negligible. The Commission considered that the benefits of the legislative amendments relating to labelling outweighed the costs.

The Commission also commented on the desirability of the ACT Government:

- pursuing its layer hen welfare objectives by providing consumers with information about the effects of different egg production systems on hen welfare if the granting of an exemption to the Commonwealth's *Mutual Recognition Act 1992* for the ban was considered problematic, or if the community benefits of a ban were perceived to be insufficient to outweigh the estimated costs;
- if a ban were introduced, considering complementary measures — such as reviewing codes of practice and coordinating relevant research — to maximise the potential for improvements in hen welfare stemming from the ban; and
- seeking to have Section 24A (1) of the *Food Amendment Act 1997* added to the permanent exemptions listed at Schedule 2 of the Commonwealth's *Mutual Recognition Act 1992*.

Government response

The ACT Government concluded that there was a net public benefit in a ban on the sale of battery hen eggs in the Territory, but failed to gain unanimous support from other jurisdictions for its legislation to be exempt from the Mutual Recognition Act (Carnell 1999). Consequently, neither the sale nor production of battery hen eggs is prohibited in the ACT. Although the labelling rules require the ACT producer to disclose how its eggs are produced, egg producers outside the ACT do not have to

meet the additional labelling requirements for eggs they offer for sale within the Territory. The National Competition Council considered that the ACT Government had met its Competition Principles Agreement obligations in respect of these matters (NCC 1999, p. 167).

Pig and pigmeat industries: safeguard action against imports

Productivity Commission Inquiry Report No. 3 signed 11 November 1998, released 25 November 1998.

The Commission found that, in accordance with the WTO Agreement on Safeguards:

- the domestic industry producing like or directly competitive products comprised pig producers as well as producers of primal pork cuts (that is, specialist pig abattoirs and boning room operators);
- imports of frozen, boned pork under tariff sub-heading 0203.29 (statistical code 12) had increased in absolute terms and relative to production;
- the industry had suffered and was suffering serious injury as the result of producer prices consistently and appreciably below average production costs during 1998, leading to significantly reduced profitability for most pig producers;
- serious injury during 1998 had been caused primarily by increased imports which had driven down the price of that part of the pig (legs) which traditionally has delivered a premium to local producers; and
- safeguard measures could be justified under the WTO criteria. The Commission considered that an *ad valorem* tariff (on imports under tariff sub-heading 0203.29, excluding imports from New Zealand) of 10 per cent, phasing to 5 per cent after one year, and to zero after two years, if implemented, would achieve a reasonable balance between the WTO twin requirements of remedying the serious injury attributable to increased imports and facilitating industry adjustment. Quantitative measures would not be appropriate for this industry because they would obscure international price signals, while a higher level of tariff could slow the required adjustment unnecessarily.

The Commission also noted that:

- a safeguard measure would not of itself promote adjustment or exports;
- measures that directly promote industry restructuring and an export focus, while providing assistance to those leaving the industry, might be more appropriate than safeguard measures. Various support measures were already in place;

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- import restrictions would raise the price of inputs to the smallgoods manufacturing sector, with possible adverse effects on that industry, and increase consumer prices;
 - any import restriction on imports of *frozen* pork under sub-heading 0203.29 had the potential to be undermined by imports of *chilled* pork cuts from Canada or Denmark under tariff sub-heading 0203.19; and
 - it had no wish to speculate on the question of any response by the Canadian Government. However, the reduction of existing preferences for trade between Canada and Australia was *not* constrained by WTO agreements, as assumed by some participants, but by the Canada–Australia Trade Agreement.

The Commission found that the following factors would have a significant influence on the profitability and competitiveness of the pig farming and pigmeat processing industry:

- the price of feed, including the effect of single desk selling of grain exports;
- access to genetic material and vaccines;
- product quality and presentation on both domestic and export markets;
- export standard abattoir and boning room capacity;
- the extent of integration with world markets and with world prices for pigmeat and by-products; and
- links between pig farming, pigmeat processing, and marketing.

The profitability and competitiveness of individual pig farmers would depend also on their access to export standard processing facilities and their links into the pigmeat processing and marketing chain.

Government response

On 22 January 1999 the Government announced a revamped adjustment program for the Australian pork industry and that it concurred with the Commission's findings on safeguard action (Vaile and Fischer 1999). The Government agreed that:

- there was no basis for the application of quantitative restrictions on imports of pigmeat;
- only a short-term minimal tariff could be applied consistently with the WTO safeguards provisions;
- such tariff assistance would not promote industry adjustment or exports;

-
- measures to facilitate the industry's continuing adjustment to the changing world market would be more appropriate; and
 - safeguard measures of the extent which could be justified under WTO requirements would not materially address the problems facing the pig and pig-meat industries.

In a subsequent announcement on the Government's National Pork Industry Development Program, the Minister for Agriculture, Fisheries and Forestry announced a review of the Australian Quarantine and Inspection Service's controls on imported uncooked pigmeat (Vaile 1999).

The Australian black coal industry

Productivity Commission Inquiry Report No. 1 signed 3 July 1998, report released 11 February 1999.

The Commission recommended that:

- Governments should facilitate improvement in mine management by increasing the choices available to owners and managers in managing mines. Governments should not prescribe:
 - the management hierarchy at the mine site;
 - the bundle of skills held by mine managers (including management experience); and
 - the functions of mine managers.
- The Coal Mining Qualifications Board (NSW), and the role in the coal industry of the Board of Examiners (Queensland), should be abolished.
- The role of employees in carrying out safety inspections should not be restricted by regulation to union nominees.
- The following should not be included as part of the allowable award matters in the black coal industry:
 - 'custom and practice';
 - retrenchment lists and seniority-based recruitment;
 - provisions which require retrenchment based on seniority alone;
 - restrictions on the use of part-time, casual or temporary employment or on the use of contractors;
 - bonuses;

-
- specific demarcation provisions;
 - prescriptive training provisions; and
 - provisions relating to the process of negotiating change.
- The NSW and Queensland Governments should facilitate the early establishment of comprehensive rail access regimes that can be certified by the National Competition Council as effective.
 - In New South Wales and Queensland, pricing principles and asset valuations used to determine prices for access to rail infrastructure should be made public. So too should any related recommendations prepared by the NSW Independent Pricing and Review Tribunal (IPART) and the Queensland Competition Authority (QCA).

Freight customers should have a right of appeal to these bodies regarding the application of the principles on a case-by-case basis. The role of the regulation and arbitration units of IPART and QCA should be clearly defined and delineated.

Parties should be able to use an independent arbitrator of their choice for dispute resolution.

- The Queensland Government should publish the target rates of return for its port corporations' assets.

The New South Wales and Queensland Governments should bring their port corporations within the prices oversight jurisdiction of the IPART and the QCA, respectively.

- Workplace parties (principally employers) should be legally responsible for mine safety through their duty of care.

Underground coal mines should be regulated separately from the open cut coal sector, which should be covered by occupational health and safety legislation governing metalliferous mining or the general legislation governing occupational health and safety in other industries.

- The Joint Coal Board should be abolished and its functions taken over by the NSW Department of Mineral Resources, WorkCover and other public and private providers as appropriate.

If it were decided to retain the workers compensation role of the Joint Coal Board, Coal Mines Insurance should be corporatised and required to compete for business against other insurance options.

- The NSW Government should adopt an ad valorem royalty system.

Government response

On 11 February 1999 the Commonwealth Government announced that it supported all the Commission's recommendations and intended to work with the New South Wales and Queensland Governments to ensure their implementation (Minchin 1999a).

Nursing home subsidies

Productivity Commission Inquiry Report No. 4 signed 13 January 1999, report released 31 March 1999.

The Commission recommended that:

- The Commonwealth Government should adopt nationally uniform basic subsidies — that is, a separate nationally uniform basic subsidy for each Resident Classification Scale category — for high care residents, as part of a package of changes to address deficiencies in the current subsidy arrangements.
- The Government should specify its intended outcomes in terms of a standard of care benchmark. The purchase price of care outputs from providers by way of subsidy funding, in combination with funding from residents, should be adequate to meet the cost of providing that benchmark standard of care.
- As a basis for setting the output purchase price, the Government should arrange for a five yearly assessment of the jurisdictional and national average input costs of providing the benchmark level of care using a standardised input mix averaged across a range of efficient facilities (with, say, 40 to 60 beds). These assessments should be set in a broad context taking into account any changes in the residential aged care benchmark and in care expectations, and re-examining the case for nationally uniform basic subsidies. The reviews should be conducted transparently and independently of government.
- Basic subsidy rates should reflect nursing wage rates and conditions applicable in the aged care sector, but only to the extent that these do not exceed the rates and conditions applying in the acute care sector.
- Basic subsidy rates should be adjusted annually according to indices which clearly reflect the changes in the average cost of the standardised input mix, less a discount to reflect changes in productivity. Revised indexation arrangements should be introduced as soon as possible.
- The pensioner, oxygen, enteral feeding, respite and hardship supplements should be retained in their current form at this stage. The rates should be suitably indexed. The appropriateness and adequacy of these existing supplements, and

the justification for any additional supplements, should be re-examined in each five yearly assessment of costs.

- The concessional supplement should be set at a single uniform daily rate.
- The current payroll tax supplement should be replaced by a system of cost reimbursement for payroll tax paid by providers for their employees and for contract nursing and personal care staff.
- The assessment of costs should include a component to reflect the average workers compensation premiums (base tariff plus experience adjustments) incurred by residential aged care providers. This component should be adjusted between the five yearly assessments if indexation of basic subsidy rates fails to cover significant changes in average workers compensation costs.

In addition, supplementary funding should be made available for individual providers which incur higher workers compensation costs than the amount allowed for in the average cost base, on the condition that those providers bear an excess equal to 30 per cent of that amount.

- Superannuation charges should be included in the assessment of costs, at rates appropriate for each Resident Classification Scale classification.
- The current subsidy reduction for government-run homes and those transferred to the non-government sector should be phased out over a five year period.
- Additional funding support for higher cost homes in special circumstances, such as smaller higher cost nursing homes in rural and remote areas, should come from a special needs funding pool. The Government should add to current outlays to meet this purpose, separate from, and additional to, the funding of the basic subsidy. The new special needs arrangements should be developed and costed in consultation with providers, resident groups and State and Territory governments.
- There should be no requirement for providers to acquit subsidy payments.
- Residential aged care subsidies should continue to be paid to providers rather than to residents.
- There should be greater opportunity for the provision of extra services to residents who wish to meet the relevant costs. In this regard:
 - an extra service should be any facility or service that exceeds standard care as defined under the benchmark level of care required to be provided to all residents irrespective of financial means;
 - the controls on where in a facility extra services are provided, and the price charged for such services, should be abolished;

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- the current reduction in the basic subsidy for residents receiving extra service should be abolished; and
 - the current strict quota on extra service places should be replaced with a lighter-handed approach and a monitoring system aimed at identifying any cases where extra service provision is reducing access to standard care. The Government should also look at the scope to simplify the regional matrix of concessional resident ratios.
 - The Government should work closely with providers and other stakeholders to resolve quickly all outstanding concerns in relation to program administration and transparency of information.
 - The Residential Aged Care Review should undertake the first assessment of average costs as part of its examination of the adequacy of subsidies for residential aged care (as required by its terms of reference). This should be carried out in accordance with the subsidy methodology set out by the Commission in its recommendations and in the body of this report.
 - Subject to any recommendation from the Residential Aged Care Review in relation to the adequacy of funding provided by the Government for residential aged care, funds earmarked for indexing current subsidies should be redirected to progressively increase the basic rates for the low subsidy States until a coalescence (or, if nationally uniform basic subsidies are not adopted, until a revised set of jurisdictional subsidies) is achieved.

Government response

The Government is undertaking a series of consultations with industry and other stakeholders before a whole-of-government response is made to the Commission's report (Bishop 1999).

Ecologically sustainable land management

Industry Commission Report No. 60 signed 27 January 1998, report released 20 April 1999.

The ecologically sustainable management of land — and its associated natural resources of water, flora and fauna — raises many complex issues. There are numerous environmental impacts associated with the use of land and they vary over time and place, and do so in ways that are difficult to predict. Many impacts are specific to particular areas and most are interrelated. Consequently, there is no simple answer or single solution to ensuring ecologically sustainable of land and

associated natural resources — a comprehensive and integrated package of policy measures that accommodates this complexity is needed.

The Industry Commission’s package of recommendations was built around three major components. In brief, these were to:

Recast the regulatory regime to ensure resource owners and managers take into account the environmental impacts of their decisions.

- The regulation of land and natural resource management and environmental protection in each State and Territory should be built around a statutory *duty of care* for the environment.
- The duty of care should apply to everyone whose actions could foreseeably harm the environment and should require those people to take all reasonable and practical steps to prevent harm to the environment.
- Existing legislation regulating the protection of the environment and the management of land and natural resources in each State and Territory should be replaced by a comprehensive set of provisions in a single unifying statute.
 - The unifying statute should contain a statement of the principles centred round a duty of care to be applied to the management of land and natural resource and the protection of the environment.
 - The Commonwealth should enact a single unifying statute regulating the protection of the environment and the management of land and natural resources in areas within its jurisdiction.
- A single independent agency in each jurisdiction should be charged with administering the legislation, with the specific responsibilities being devolved as far as is practicable.
- Voluntary standards — codes of practice and environmental management systems of what is reasonable and practicable — should be the principal means of assisting duty holders to meet their statutory duty of care and related legal obligations. As far as possible, the development of voluntary standards should be left to those who have a stake in their application and to independent standard-setting bodies, such as Standards Australia and the International Standards Organisation. Mandated standards should only be used as a last resort — when the risks of environmental damage are particularly high.
- The administering agency should assist the development and application of voluntary standards by:
 - publishing information about significant hazards or risks of which duty holders or standards developers should be aware;

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- publishing lists of voluntary standards that it considers conform to all the statutory requirements — and the use of such standards should constitute *prima facie* compliance; and
 - accrediting suitably qualified auditors from the private sector to undertake external audits of compliance.
- As far as possible, each jurisdiction should mandate broad environmental outcomes, rather than the inputs or processes to be used in achieving them. Wherever possible, jurisdictions should allow functionally equivalent Australian and international standards to be used to meet the objective. Any new mandated standards should be developed by a transparent process of consultation with all interested parties.

Create or improve the markets for key natural resources

- Action is required to remove specific impediments to the creation or expansion of well functioning markets for key resources such as surface and ground water, farm forestry and native vegetation, native flora and fauna, and to waste or discharges from agriculture. The recommended measures centred on creating or better defining tradeable rights to use these resources and included:
 - separating the ownership of trees from the land on which they are grown and guaranteeing forest harvesting rights prior to planting;
 - removing export controls on plantation-sourced wood;
 - tradeable water entitlements, including for managers of environmental flows;
 - extending the existing tradeable discharge permits to new sources of water pollution;
 - creating new permit systems for agricultural discharges — such as salts and nutrients; and
 - implementing pricing reforms to eliminate subsidised use of resources.

Encourage nature conservation on private land

- Each State and Territory should extend its use of voluntary conservation agreements with selected landholders. The benefits of this approach would be enhanced by removing impediments to the commercial utilisation of wildlife — for example, by lifting export controls where an appropriate management system or code of practice was put in place.
- Governments need to ensure that their tax systems encourage environmental altruism as much as any other form of altruism — at present they do not. In particular, expenditure on private nature conservation should be eligible for the same income tax treatment as applies to heritage buildings and structures; and

the treatment of donations of land to registered charities for conservation purposes should not be dependent on the date of purchase.

Underlying, and fundamental to, the effectiveness of the three major components is a need to ensure that the generation and dissemination of environmental knowledge and know-how is adequate for the needs of policy makers, landholders and other resource managers.

- The Commonwealth, States and Territories should, as a matter of priority, conclude an agreement on the management of spacial data held by their agencies.
- Agencies charging a fee for data provision should review their pricing policies to ensure that, once produced, any additional costs of extracting and formatting data to meet specific user requirements should be recovered from them.
- The Commonwealth should initiate a review of Land and Water Resources Research and Development Corporation's charter with the aim of extending it to incorporate research into the management of on-farm biodiversity. Included in this review should be an investigation of the most effective way of funding this additional research. The Commonwealth should also consider making available funding for a Cooperative Research Centre for the Management of On-Farm Biodiversity.
- The States and Territories should review their extension programs with a view to ensuring that they are capable of advising landholders on all aspects of ecologically sustainable land management.

The focus of the report was on ensuring future decisions more completely reflect the impact of those decisions on ecologically sustainable land management, rather than the issue of repairing the effects of past decisions. For remediation, where worthwhile, it was considered reasonable for beneficiaries to contribute to the costs in proportion to the benefits they derive, as far as is practical.

Government response

There had been no government response to the report as at 8 October 1999.

Telecommunications equipment, systems and services

Industry Commission Inquiry Report No. 61 signed 9 April 1998, report released 12 May 1999.

The Commission recommended:

- Tariff removal scheduled for goods under reference covered by the WTO Agreement on Information Technology (the ITA) should be brought forward and take effect at the same time as the tariff measures announced by the Commonwealth Government in its December 1997 industry policy statement *Investing for Growth*.
- The economic rationales for industry policies which affect the telecommunications equipment industries, such as the Telecommunications Industry Development Plans and the Partnerships for Development/Fixed Term Agreements (Pfd/FTA) programs, should be articulated clearly.
- Industry Development Plans should be voluntary for small new carriers. The criterion of ‘smallness’ could be based on indicators such as capital expenditure, sales revenue, and/or market share.
- Mandatory Industry Development Plans should not be a permanent feature of the carriers’ regulatory regime, and should ultimately be made voluntary for all carriers. One option is to do this by 30 June 2002, when all current plans will have lapsed.
- The Pfd/FTA programs should be reoriented towards activities such as R&D and alliance formation, where spillovers are most likely, and away from local content for its own sake.
- Greater transparency of individual partner’s commitments and achievements should be introduced into the Pfd/FTA programs, by requiring partners to publish public versions of their agreements and reports of their achievements.
- There should be a full independent review of the Pfd/FTA programs in the year 2000, taking account of the Commission’s suggested guidelines for conducting such a review.
- The Commonwealth Government should consider:
 - the merits of replacing the existing general tax concession for business R&D with an incremental scheme;
 - providing the incentive in a non-taxable form instead of a tax concession, at least for firms with tax losses or insufficient franking credits; and
 - the scope in an incremental scheme to increase the rate of assistance to R&D.

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- In implementing its plans for an investment attraction program, the Commonwealth Government should minimise the economic risks by following a number of principles:
 - the program should be designed to maximise the extent to which investments are truly new to Australia by, for example, establishing a transparent cap on the maximum amount of financial resources the Government will provide under the program;
 - any proposal should be subject to rigorous cost–benefit assessment, including examination of the sources of spillovers;
 - as the process of discerning beneficial investment opportunities will emerge only after trial and error, the effects of the program should be monitored regularly so that changes in its design can be made to increase its effectiveness early in its life;
 - the Office of the Strategic Investment Coordinator should consult with prospective investors to gain detailed intelligence about inappropriate microeconomic impediments to investment in Australia;
 - it is better to provide subsidies to fund specific improvements of Australian endowments (for example roads, skills, R&D) critical to foreign investments, than to provide subsidies direct to foreign shareholders; and
 - the Office of the Strategic Investment Coordinator should use transparent processes and criteria for decision making.
 - Existing venture capital programs should be monitored for some time and then evaluated to determine their effectiveness, before any additional or alternative programs in this area are considered.
 - Any modifications to the taxation system to improve the availability in Australia of venture capital should be considered in the context of a wider review of the tax system.

Government response

On 12 May 1999 the Government announced that it ‘largely’ agreed with the Commission’s recommendations and had taken action on most of the matters before release of the Commission’s report (Alston 1999).

The Government had removed tariffs on the majority of items covered under the ITA from 1 July 1998. Tariffs on remaining ITA goods would fall to zero on 1 January 2000. In addition, a new Schedule 4 Item in the Customs Tariff to cover a range of inputs to manufacture of information industries equipment not included in

the ITA had been established. This would allow duty free entry for inputs currently subject to a Tariff Concession Order.

Other areas of agreement included:

- the need for clear articulation of economic rationales for such programs as Industry Development Plans and PfD/FTA programs, the reorientation of such programs to where spillovers are most likely, greater transparency of firms' commitments and achievements and a full independent review of the PfD/FTA programs in the year 2000;
- the principles enunciated by the Commission to guide and monitor the Government's investment attraction program;
- the need to monitor and evaluate existing venture capital programs before providing additional funding or developing alternative programs; and
- considering the tax treatment of venture capital in the context of a wider review of the tax system.

The Government did not agree to:

- making Industry Development Plans voluntary for small new carriers;
- removing Industry Development Plans as a permanent feature of the carriers' regulatory regime — the effectiveness of the Industry Development Plan arrangements would be addressed as part of the full review of telecommunications regulation to be undertaken by 30 June 2002; and
- supporting the implementation of an incremental based form of the R&D tax concession 'due to its complexity and administrative cost' and the uncertainty for business already created by the substantial changes to R&D assistance in 1996 and 1997.

International air services

Productivity Commission Inquiry Report No. 2 signed 11 September 1998, released 3 June 1999.

The Commission found that the 50 year old system of bilateral air service arrangements between countries is unable to cope with the ever growing demands for international air services and the system's constraints hurt airlines and their users — travellers and the tourism and air freight industries. The Australian Government, like many others, has been loosening the restraints, but not fast enough. Unilateral 'open skies' are not the solution for Australia as long as the rest of the world remains committed to the bilateral system.

The Commission recommendations covered five key areas.

Further liberalisation

- The Commission recommended that Australia should seek to negotiate reciprocal ‘open skies’ agreements on a bilateral basis which would remove restrictions on:
 - capacity and frequency to, from, between and beyond Australia and the bilateral aviation partner;
 - codesharing on each other’s airlines;
 - routes, including points of access to the Australian and the bilateral partner’s markets, intermediate and beyond points;
 - multiple designation of airlines by Australia and the bilateral partner;
 - ownership as a basis for airline designation; and
 - prices.

Such reciprocal agreements should also contain restrictions on government subsidies where these are significant. Australia should also be prepared to negotiate, on a case by case basis, removal of restrictions on cabotage and the development of ‘stand alone’ services between the bilateral partners and third countries (so called seventh freedom services).

- Australia should invite like-minded countries to discuss the formation of an open club of nations committed to liberalising international aviation through a common plurilateral ‘open skies’ agreement.
- The Commonwealth Government should promote discussion within the WTO membership to determine a process for including all air services in the General Agreement on Trade in Services.
- The Commonwealth Government should join with other like-minded governments to have the International Civil Aviation Organization (ICAO) Secretariat’s 1994 proposals to liberalise ownership and control requirements for national designation reconsidered for adoption on a plurilateral or multilateral basis.
- In the meantime, Australia’s own air services arrangements (ASAs) should be negotiated to incorporate a more liberal means of designating airlines which does not rely on ownership restrictions.
- The Commonwealth Government should invite neighbouring countries to develop, and seek ICAO recognition for, a regional arrangement which would

enable relaxation of ownership and control criteria. Countries to be considered should include New Zealand and the South Pacific Forum island nations.

A regional reform package

As a step towards the further liberalisation of international air services, the Commission recommended reforms to ASAs to benefit regional Australia, encompassing both bilateral and unilateral elements:

- *Bilaterally*, Australia should offer unlimited capacity to fly to all airports other than Sydney, provided that Australian carriers are offered the same routes on a reciprocal basis by their bilateral partners. The Australian Government should take up the British offer of similar opportunities.
- *Unilaterally*, Australia should offer, within negotiated capacity:
 - removal of restrictions on the number of points to be served and designation of all cities in Australia other than Sydney, Melbourne, Brisbane and Perth;
 - unrestricted rights for foreign airlines to codeshare to all points in Australia on Australian domestic airlines; and
 - unrestricted rights for foreign airlines to carry their own-stopover traffic.

International Air Services Commission (IASC)

The Commission considered that the IASC should continue but recommended ways in which its role and processes should be streamlined and simplified.

Australia's aviation policy and processes

The Commission found that more transparent and consultative processes are needed in developing Australia's international air services negotiating framework and, accordingly, recommended that:

- The Commonwealth Government should publish, and keep up to date, a statement of its aviation policy.
- The Department of Transport and Regional Development (now Transport and Regional Services) should develop a formal direct consultation process which encompasses all major interested parties to obtain their views on ASAs being negotiated and ensure that it provides timely and informative feedback on the outcomes of the ASA negotiation process.
- An interdepartmental committee, chaired by the Transport Department, should be established to consider and endorse all proposals relating to Australia's air

services negotiating position. The committee should include the Departments of Prime Minister and Cabinet, Treasury, Foreign Affairs and Trade, and Industry Science and Tourism (now Industry, Science and Resources).

- Confidentiality of ASAs should be limited strictly to those parts of the arrangements specifically required by other governments. The reasons for granting confidentiality of ASAs should be scrutinised closely. All other arrangements should be made public and easily accessible.

Inquiry into airports

The Commonwealth Government should commission an inquiry into airport capacity, access and pricing in 2001. Such an inquiry should, at a minimum, examine:

- constraints that airports are imposing on Australia's air services;
- peak load pricing;
- regulation of aeronautical charges;
- the potential for the introduction of a market for landing slots; and
- legislated access provisions.

Government response

On 3 June 1999 the Commonwealth Government announced substantial agreement with the Commission's recommendations and, in summary, would:

- offer foreign international airlines *unrestricted* access to all Australia's international airports except Sydney, Melbourne, Brisbane and Perth — foreign international airlines operating to regional Australia would have unlimited capacity, codeshare, and own stopover rights [the Commission notes that the offer is not confined to 'within negotiated capacity'];
- seek to negotiate reciprocal open skies arrangements with like minded countries where this is in the national interest;
- propose that international aviation be liberalised on a multilateral basis through the General Agreement on Trade in Services round that begins in the year 2000;
- reform the foreign ownership rules for Australian airlines (but retain the existing ownership restrictions on Qantas);
- offer unrestricted access to all international airports for dedicated freighters;

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- in all cases, aim to achieve a more liberal regime for designating international airlines;
 - establish a formal consultation process to help develop the Government's position in international air services negotiations; and
 - reform the roles and responsibilities of the IASC to simplify the processes for allocating capacity to Australian airlines (Costello and Anderson 1999).

The Government disagreed with certain of the Commission's recommendations. It rejected the recommendations to:

- allow foreign international airlines to carry domestic passengers within Australia on a case-by-case basis;
- bilaterally offer unlimited capacity to fly to all airports other than Sydney (provided that Australian carriers were offered the same routes on a reciprocal basis by their bilateral partners) maintaining that it needed the ability to trade access to Sydney, Melbourne, Brisbane and Perth as leverage to gain access to third country markets [but the Commission notes that the Government decided to offer unrestricted access to all airports other than Sydney, Melbourne, Brisbane and Perth];
- commission an inquiry into airport capacity, access and pricing, because such a review 'had the potential to generate uncertainty amongst bidders for Sydney airport and have a negative impact on its value'; and
- change some IASC processes and administrative arrangements relating to Australia's air services negotiating position.

Work arrangements on large capital city building projects

Labour Market Research Report released by the Commission 24 August 1999.

The report focused on changes in work arrangements on large capital city building projects since the late 1980s, and the scope for further performance-enhancing change. While the diversity of the building and construction industry made it inappropriate to extrapolate the findings of this study to other sectors of the industry, the Commission's key findings were that:

- There has been some improvement in a number of the highly inefficient work arrangements that existed on large capital city building sites in the late 1980s. Nevertheless, not all changes have been positive, nor have improvements occurred consistently across all cities examined.

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- Key features which influence work arrangements on large capital city building projects include: the finite duration of each project; the fixed price contracts imposed by clients on head contractors (which are then mirrored along the contractual chain linking the various enterprises on site); the cost and time pressures associated with contracts, which increase the vulnerability of sites to industrial action; and high unionisation rates.
 - These features, combined with the critical role of labour in the production process, provide unions with substantial market power.
 - Industry/trade and project agreements — where head contractors, employer associations and unions form the negotiating parties — largely determine work arrangements in this sector of the industry. Subcontractors, who can employ up to 90 per cent of labour on a project, have limited control over work arrangements, especially remuneration.
 - In the late 1980s, union market power was used to entrench many inefficient work arrangements, including: one-out-all-out, demarcation of work tasks, inflexible inclement weather practices and inflexible rostered days off. Such arrangements, and associated industrial disputes, led to projects being significantly delayed.
 - The early 1990s recession was identified by most parties as a catalyst for improvements in work arrangements. The move to fixed price contracts, attitudinal changes by all parties and reduced inter-union rivalry due to union amalgamations, have also been major factors. In New South Wales, the exposure of unethical firm behaviour by the Gyles Royal Commission and the deregistration proceedings against the Construction Forestry Mining and Energy Union gave added impetus to the extent of change.
 - Most parties said completion times for large capital city building projects have fallen, particularly in Sydney. This is due to a range of factors, including better coordination on site and improvements in inclement weather practices and other work arrangements.
 - There has been a fall in site-specific disputes following the introduction of fixed price contracts, but a commensurate increase in industry-wide disputes has seen the total rate of dispute related delays increase since 1995 to the high levels of the late 1980s.
 - There has been a shift to enterprise agreements, but pattern agreements dominate at the subcontractor level. Thus, while there are variations in some work arrangements, remuneration rates appear uniform across all enterprise agreements within a particular trade.

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- Employees on large capital city building sites have weekly incomes significantly above the building and construction average. Much of this is due to overtime. However, negotiated wage increases above the economy-wide average are also a factor. As well, payments are made for site or (ill-defined) productivity allowances.
 - High rates of fatalities and injuries on large capital city building sites remain a concern, although there has been some reduction in the severity of injuries over the last few years.
 - Work arrangements in Melbourne appear less flexible than those in Sydney or Brisbane. For example, the content of pattern agreements is more uniform in Victoria than in New South Wales, and the option of changing rostered days off is used in both Sydney and Brisbane, but rarely in Melbourne.
 - The complex nature of large capital city building projects, with head contractors having ultimate responsibility, means that it is appropriate to negotiate some work arrangements at different levels.
 - There are grounds for head contractors having control over some site-specific work arrangements, such as opening hours, site safety and inclement weather procedures and rostered days off, to facilitate coordination.
 - The coordinating role of head contractors, however, should not extend to remuneration of subcontractor employees. Employers, in most cases subcontractors, are best placed to determine remuneration and associated incentives to improve the productivity of their own enterprises.
 - The scope for further improvements in work arrangements will continue to be affected by the special economic characteristics of large capital city building projects (including the high cost of delays and the extensive use of subcontractors) which condition the relative bargaining strengths of the parties. However, planned changes to legislation to improve the timeliness of penalties against unprotected industrial action and to address de facto compulsory unionism would facilitate further change.

Government response

The Commonwealth and Victorian governments jointly welcomed the report, and in particular, noted the following Commission findings:

- work arrangements in Melbourne appear to be less flexible than in other competing capital cities, and the cost impact this creates;
- the relatively high level of industrial disputation recorded in this industry in Victoria; and

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- an apparent continuation of the unlawful practice of compulsory unionism (Reith and Birrell 1999).

The Commission's report was seen as presenting further support for the views of the Commonwealth and Victorian governments that additional reform is needed.

Government responses to Industry Commission reports from previous years

Packaging and labelling

Industry Commission Inquiry Report No. 49 signed 14 February 1996; report released and initial government response 8 October 1996.

On 6 July 1999 the Government announced that it would remove the tariff on aluminium cansheet — used to make the body, ends and tabs of beverage cans — and steel tinplate from 1 October 1999 (Minchin 1999c). The Commission's 1996 report had recommended that the tariff on tinplate and aluminium canstock be removed from 1 July 1997.

The machine tools and robotics industries

Industry Commission Inquiry Report No. 52 signed 13 August 1996, released 6 August 1997.

The Government announced its decision to terminate the bounty on machine tools and robots from 20 August 1996 (subsequently extended to 30 June 1997) soon after the Commission finalised its report. The Commission had recommended cessation of the bounty on 30 June 1997. Other recommendations remained to be addressed.

In March 1999 the Government announced that it proposed to adopt the remaining Commission recommendations when it introduced the Customs Tariff Proposal No. 1, 1999 in the House of Representatives (Slipper 1999).

From 1 April 1999:

- duty on parts of machine tools classified to certain subheadings in chapter 84 would be reduced from 5 per cent to zero; and
- policy by-law items 48, 49 and 55 in schedule 4 of the Customs Tariff Act would be cancelled.

The Industry Commission's 1996 report had recommended these changes be effected from 1 July 1997.

The Government stated that:

The recommendations and the advice gained from the Industry Commission's study have been invaluable to the government in determining the best mode of assisting the technological development and encouragement of Australia's machine tools and robots industry (Slipper 1999, p. 4689).

Implications for Australia of firms locating offshore

Industry Commission Inquiry Report No. 53 signed 28 August 1996, report released with an interim response 13 December 1996, final response 28 January 1999.

In its final response to the Commission's report the Government noted:

- it was addressing impediments to Australian industry's offshore investment activities through a range of multilateral, regional and bilateral trade and investment initiatives;
- it was taking action to improve the opportunities for investment within Australia by improving Australia's competitive position and the environment for business. Invest Australia has been established to provide a wide range of services to international companies seeking to invest in Australia;
- it had announced details of its tax reform package in August 1998 (since legislated) and had established a Business Tax Review to facilitate consultation on the design of reformed business tax arrangements. Taxation issues relevant to the Commission's report would be considered as part of that review; and
- the *Native Title Act 1998* had addressed uncertainties about access to land (Kemp 1999).

Book printing

Industry Commission Inquiry Report No. 54 signed 23 October 1996, report released 6 August 1997.

The Government had announced its decision to terminate the book bounty from 20 August 1996 (subsequently extended to 31 December 1997) in advance of the Commission finalising its report. The Commission had recommended cessation of the bounty after the end of 1997. Other Commission recommendations remained to be addressed.

On 16 December 1998 the Government announced its full response to the Industry Commission report to coincide with the introduction of a Printing Industry Competitiveness Scheme to operate from 1 January 1999 (Minchin 1998). The Commission had recommended no other form of assistance replace the book bounty. Under the Scheme, book printers will be able to claim 4 per cent of the purchase price of paper (whether or not imported) to compensate for the effect of duty on their paper inputs. Eligible books would be defined broadly along the lines under the previous bounty scheme. A review of the Scheme is to be carried out by 31 December 2001, or earlier, if relevant paper tariffs change.

The Government rejected the recommendation to remove the tariff on Australian directories and timetables. Consideration of reductions in duties on these goods was deferred until the general review of tariffs at or before the year 2000. (The general tariff review was announced in July 1999.)

The Commission had recommended telecommunications providers such as Telstra be free to determine, on a commercial basis, their own arrangements for supplying directories. However, as part of the telecommunications regulatory regime the Government had decided that Telstra would continue to provide, free of charge, White Pages directories to each customer covering the subscriber area in which the customer was located.

In relation to other recommendations, the Government noted that it:

- was addressing the issue of parallel importation of books separately from the Industry Commission report;
- consults widely and regularly on intellectual property issues with industry and other interested parties, including consumer groups;
- had announced its support for a broad-based transmission right and was preparing an exposure draft of legislation which would allow copyright owners to control online transmission of their copyright material; and
- was pursuing a comprehensive approach to trade policy aimed at maximising market opportunities for Australian exporters of goods and services.

Private health insurance

Industry Commission Inquiry Report No. 57 signed 28 February 1997; report released and government response 10 April 1997.

As part of its response to the report, the Government announced that it was disposed to support the Commission's recommendation for the introduction of unfunded

lifetime community rating but, given the fundamental nature of the change, the Government would conduct further analysis of the economic and other potential consequences. Details of the Commission's other recommendations and the Government's response were provided in IC (1997b, pp. 115–19).

On 2 June 1999 the Minister for Health and Aged Care introduced a Bill into Parliament to require health funds to set different premiums depending on the age at which a member first takes out hospital cover with a registered health fund (Wooldridge 1999a, pp. 5753–4).

Under Lifetime Health Cover, people who take out hospital cover with a registered organisation before the age of 30, and maintain their membership, will pay lower premiums throughout their lifetime relative to people who delay joining. People who join after the age of 30 would pay a 2 per cent premium loading for each year they delayed joining. This loading will be capped at a maximum of 70 per cent above the premium payable by a person who joined at the age of 30.

A range of transitional provisions will apply, including:

- no matter what their age, existing members of private health insurance funds with hospital cover will be treated as if they had joined a fund at the age of 30;
- there is a period of grace to 30 June 2000 for people currently without private health insurance to join and pay the 30 year old rate irrespective of their age, provided they have paid contributions for a minimum period; and
- people born before 1 July 1934 will be able to take out hospital cover at any time in the future without paying a loading for joining late in life — that is, pay the same premium as a 30 year old new member.

Provision is also made for people who discontinue fund membership and for migrants and refugees.

The legislation was passed by the Parliament on 27 September 1999.

There is to be an independent review of Lifetime Health Cover and its report is to be tabled no later than 31 December 2003 (Wooldridge 1999b).

D Supporting research and related activities

The Commission's supporting research program encompasses a range of activities to promote greater community awareness about the productivity performance of the economy and of Australian industry, factors affecting industry performance, assistance and regulation affecting industry, and related matters. This appendix provides brief summaries of Commission research reports, conference proceedings, research submissions made to other review bodies, and staff research and working papers. It also lists the presentations given by the Chairman, Commissioners and staff to conferences, parliamentary committees, and industry and community groups in 1998-99.

Commission research papers

Aspects of structural change in Australia

December 1998

This paper provided information about structural change in Australia since the early 1970s. It examined the direction and extent of structural change and the extent and nature of adjustment among Australia's regions and identified some key developments in the labour market.

Australia has seen extensive changes in its industry composition, employment and investment over the past few decades. Consistent with the trend in many other countries, the services sector's share of output and employment has expanded considerably, while manufacturing's share has declined at a somewhat greater rate than in most other OECD countries.

Australia's rate of structural change since 1970 has been higher than the average of a selection of 15 OECD countries. It has, however, been less than that of some countries in our region, including New Zealand and many of our Asian trading partners.

Pressures for structural change have had differential effects across regional Australia. In general, rates of structural change in employment have been higher and more varied amongst non-metropolitan regions — particularly for those with a strong reliance on mining activities. The Commission found considerable diversity in the growth rates of population, employment and income across Australia's regions, irrespective of whether they had experienced relatively low or high rates of structural change. An important implication is that high rates of structural change need not mean low employment growth or employment decline.

The last three decades saw significant changes in Australia's labour market. Job growth did not keep up with increases in the supply of labour, resulting in considerable increases in unemployment and underemployment. Different patterns of growth across the economy have affected the demand for particular skills with the young, the old, the unskilled and those from non-English speaking backgrounds affected the most.

Commission submissions to other review bodies

Productivity Commission Submission to the Review of the NSW *Rural Assistance Act 1989*

September 1998

The Commission's submission responded to a request from the NSW Review Group for information and comment on issues pertaining to its review of the Rural Assistance Act, which provides authority for the delivery of a small range of special-purpose State programs affording assistance to agriculture.

The Commission found that the rationales for the assistance programs delivered under the Act were not always clear. In addition, there was little evidence to justify assistance on the grounds that rural adjustment is impeded by barriers to entry or exit, a lack of capital, or a need to compensate producers for additional costs that they may bear as a consequence of other government reforms. However, in some circumstances, government may have a role to play in information provision and in promoting better environmental or welfare outcomes.

The Commission also had some in-principle reservations about the effectiveness of existing State programs. One concern was that some elements may act simply to transfer income to selected farms and rural activities without having any real effects on rural industry investment and activity levels. Another concern was that some

components may unintentionally reduce the efficiency of the sector and its capacity to cope with seasonal and market fluctuations.

To improve the framework for future management of rural assistance in NSW, the Commission suggested that consideration be given to:

- introducing a revised rural assistance legislative instrument which, in assessing the efficacy of rural assistance, makes the predominant consideration the interest of the community as a whole rather than the benefits to particular rural businesses or activities;
- establishing detailed program design principles to guide the delivery of individual programs within an economy-wide framework; and
- instituting review functions to monitor the relevance and effectiveness of rural assistance policy and programs in New South Wales.

Productivity Commission Submission to the Tasmanian Dairy Industry Review

November 1998

As part of its commitments under the Competition Principles Agreement, the Tasmanian Government initiated a review of the State's regulatory arrangements for the dairy industry. Included amongst those regulations were arrangements which fixed the price paid to farmers for drinking milk and associated controls on supply that prevented competition among farmers from undercutting the regulated price.

In the light of its earlier submissions to dairy reviews in other States and Territories, the Tasmanian Dairy Industry Review Group wrote to the Commission requesting it to make a submission on the arrangements in Tasmania.

In responding to this request, the Commission did not seek to replicate its submissions to previous reviews. Rather, it simply drew out matters raised in those submissions on the benefits and costs of farm-gate dairy regulations which were relevant to the Tasmanian review. As requested by the Review Group, the submission also provided estimates of assistance to the Tasmanian dairy industry.

Productivity Commission Submission to the Review of Price Controls on Telstra

March 1999

This submission to Department of Communications, Information Technology and the Arts review of price controls drew on insights from recent Commission work, including its international benchmarking of Australian telecommunications services.

Of particular relevance was the Commission's finding that those overseas countries which have provided the greatest latitude for rebalancing prices were among the countries with the lowest overall telecommunications prices — some 20 to 40 per cent below Australian prices in the case of the better performing countries. Rebalancing refers to changes to the prices for each service, such as local and long-distance charges, to more closely reflect their cost of provision.

Information on the ratio of long-distance to local service charges across countries supports the view that there may be scope for significant rebalancing of prices in Australia. A failure to rebalance charges to reflect costs can result in deterring new competitors entering some markets and inefficient and uneconomic entry in others, to the detriment of consumers overall.

Given the important role of the telecommunications regulatory environment in determining outcomes, the Commission drew attention to the need for:

- a clear statement of the problem regulation is intended to address;
- an examination of alternatives to retail price regulation to achieve the specified regulatory objectives; and
- an assessment of the efficiency and equity effects of price control regulation and alternatives.

Productivity Commission Submission to the Victorian Dairy Industry Review

April 1999

Following its submissions to dairy reviews in New South Wales, Queensland, Tasmania and the ACT, the Commission made a submission to the review of Victoria's dairy industry regulations.

As in the case of its submission to the Tasmanian review, the Commission did not seek to replicate previous work. Rather, it simply drew out matters raised in previous submissions which were relevant to the Victorian review. The submission also provided estimates of assistance to the Victorian dairy industry.

Conference/workshop proceedings

Microeconomic reform and productivity growth

Workshop Proceedings, July 1998

The Australian National University and the Industry Commission jointly held a workshop on microeconomic reform and productivity growth on 26 and 27 February 1998. The workshop brought together participants with wide-ranging theoretical and policy-advising expertise to examine the nexus between microeconomic reform and productivity performance. The volume of proceedings contains the papers presented at the workshop, discussants' comments on those papers and a summary of the discussion at each session.

Important questions addressed at the workshop included:

- How well can productivity be measured?
- How does microeconomic reform improve productivity and growth?
- How important is microeconomic reform relative to other drivers of productivity improvement?
- What microeconomic policies provide the greatest leverage for growth?
- How should we assess the costs of productivity improvement and how can adjustment issues best be handled?

The dialogue stimulated by the workshop is part of a wider process to address these questions and, ultimately, to provide information which will help governments improve the management of ongoing reform.

Industry competitiveness, trade and the environment

Workshop Papers, March 1999

On 27 November 1998 the Commission held a workshop in its Melbourne office to bring together researchers and policy advisors in the fields of environment and trade

to discuss their current work. The particular focus of the workshop was on the linkages between trade and environmental issues. The workshop featured nine papers from invited speakers, and these papers and an overview paper were published.

The invited papers covered:

- the political economy of Article XX of the General Agreement on Tariffs and Trade;
- a trade negotiator's perspective of the links between trade and environmental policies;
- trade and the environment in sustainable development;
- the role of the WTO in influencing the international environment agenda;
- Multilateral Environment Agreements and the WTO;
- some implications of the Shrimp-Turtle Decision;
- implications for gains from trade of changes in methods of support overseas;
- implications for trade and the environment of the biotechnology action agenda; and
- the incorporation of risk assessment in trade policy.

Staff research papers

Note: The views expressed in staff papers do not necessarily reflect the views of the Productivity Commission.

APEC early voluntary sectoral liberalisation

Philippa Dee, Alexis Hardin and Michael Schuele, July 1998

This paper examined selected early voluntary sectoral liberalisation (EVSL) initiatives first nominated by APEC members in November 1997. It found that, while some of the sectoral nominations are likely to lead to real income gains for a majority of APEC members, some more narrow nominations could generate significant economic losses.

Some of the nominations for APEC EVSL were sectors with low or moderate protection, at the upstream end of the processing chain. Other nominations had much broader coverage.

There is a danger that partial liberalisation could move resources further away from the pattern that would apply in a world free of protection, and lead to economic welfare losses. This is particularly likely where relatively lowly protected upstream sectors are liberalised, while more highly protected downstream processing sectors remain protected. The paper examined a range of modifications to the food sector liberalisation proposal which could eliminate such problems.

The paper suggested guidelines which could be adopted if the EVSL process is to avoid possible economic losses associated with second-best sectoral approaches to liberalisation.

Design principles for small business programs and regulations

Ralph Lattimore, Alan Madge, Barbara Martin and James Mills, August 1998

This paper is one of a series focusing on small business issues. It was intended to provide a guide to the rationales for, and the design, implementation and evaluation of small business programs and regulations.

The paper:

- examined various definitions of small business and provided a statistical snapshot of the sector in Australia;
- looked at the broad types of policy measures that governments use to assist small business, both in Australia and overseas;
- evaluated various arguments for different types of government intervention for small business;
- discussed the factors that should be considered in attempting to maximise the effectiveness and cost efficiency of small business programs;
- reviewed some of the policy design lessons provided by a number of important existing small business programs funded by the Commonwealth Government;
- reviewed empirical estimates of the costs of business taxation and regulations for small firms; and
- examined best practice regulatory guidelines and the extent to which regulations should be tailored to small business.

Youth wages and employment

Anne Daly, Duc Nguyen-Hong, Damien Eldridge, Owen Gabbitas and Paulene McCalman, October 1998

The purpose of the study was to examine the determinants of youth employment in order to shed light on the possible implications of abolishing junior rates of pay in State and Federal awards.

The paper used cross-sectional econometric techniques to isolate the influence of wages from that of other factors affecting youth employment using data from the Australian Workplace Industrial Relations Survey 1995. It also analysed trends in teenage employment over the last three decades and reviewed previous Australian and international studies on the impact of wages on youth employment.

The paper found a significant negative relationship between youth employment and youth wages in Australia. The best estimates suggested that a 1 per cent increase in youth wages would lead to a decrease in youth employment of between 2 and 5 per cent in industries employing a relatively high proportion of youth. Data limitations made it difficult to make a reliable assessment of the effect on adult employment.

Thus, to the extent that replacing State and Federal awards with non-discriminatory alternatives would lead to an increase in youth wages, the results suggested that there would be a more than proportionate reduction in youth employment.

Australia's restrictions on trade in financial services

Greg McGuire, November 1998

This paper identified and classified government regulation affecting financial services in Australia which potentially may restrict trade in financial services. The paper also quantified the restrictiveness of these measures.

The paper used a framework similar to the General Agreement on Trade in Services (GATS) schedule for financial services to classify restrictions, but provided a more comprehensive and detailed listing of measures than the GATS. The paper identified 165 measures applying to financial services, compared with 38 restrictions listed in Australia's GATS schedule. The study included measures not listed by Australia under the WTO financial services agreement and measures usually excluded from the coverage of the agreement, many of which are necessary to maintain the efficiency and stability of the financial services sector.

The paper found Australia's trade in banking, insurance and securities services very liberal when measured against eight Asian economies — Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Thailand and India. In terms of openness, Australia ranked second behind Hong Kong in banking and securities services and third behind Hong Kong and Singapore for insurance services.

Trade-related aspects of intellectual property rights

John Revesz, May 1999

This paper analysed intellectual property rights issues from both domestic and international perspectives. The main focus of attention was the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) which was introduced in 1995 and is administered by the WTO.

The paper analysed the economic implications of TRIPS for Australia. Issues examined included the proposed Innovation Patent for low level inventions, changes to the copyright protection of databases, cablecasting, digital transmissions and computer software, changes to designs legislation, the prohibition of parallel importing and current TRIPS negotiations on biotechnology and geographical indications. The paper also presented statistical estimates of the intellectual property cost content of Australian production and trade.

The paper found that, given the strong international orientation of intellectual property rights protection, Australia's best approach from an economic perspective generally seems to be to provide protection which complies with the minimum protection standards required by TRIPS, but does not exceed those standards. Providing protection above the minimum standards might hamper competition in the domestic market and provide additional income to foreign intellectual property rights holders at the expense of Australian consumers. Without reciprocal agreements with Australia's major trading partners, providing protection above the minimum international standards usually does not help our exporters. On the other hand, compliance below the minimum standards might incur political and trade retaliation and disciplinary action by the WTO.

The paper was prepared as an input to the Commonwealth Government's legislative review of intellectual property rights which commenced in June 1999.

The new economy? A new look at Australia's productivity performance

Dean Parham, May 1999

This paper reported on developments in ABS estimation of Australia's productivity performance and analysed the implications of an acceleration in productivity growth for growth in output and living standards. The main findings in the paper were:

- Australia's productivity performance is now at an all-time high. Productivity growth is faster now than in the so-called 'Golden Age' of growth around the 1960s.
 - ABS estimates show that multifactor productivity growth accelerated to an average 2.4 per cent a year between 1993-94 and 1997-98, compared with a long-term average of 1.4 per cent a year.
 - Growth in trend multifactor productivity accelerated to 2.5 per cent a year over the two years to 1997-98.
 - Strong productivity growth has been sustained well beyond the period that could be associated with recovery from the early 1990s recession.
- The productivity acceleration over recent years has not come from a reduction in labour usage. In fact, the growth in hours worked over recent years is high by historical standards.
- The Australian economy appears to have taken a new growth path in the 1990s that has opened up possibilities for faster growth and more rapid improvements in living standards. Australia's growth experience in the 1990s is unique in the 33 years of evidence available. It is also rare, if not unique, among high-income countries in the 1990s.
 - As a result of the productivity growth acceleration, output per hour worked is now 15 per cent higher than it would have been had Australia continued on the old growth path. Put another way, the growth that would have taken 13 years on the old path has been achieved in six years.

Impacts of competition enhancing air services agreements: a network modelling approach

Tendai Gregan and Martin Johnson, June 1999

This technical paper documents the modelling work carried out for the Productivity Commission's inquiry into international air services. This work involved building a network model to analyse the impacts of different airline agreements, though the

model might be used as a basis for analysing a number of other issues in networked markets.

The paper:

- reviewed recent literature regarding the passenger aviation industry;
- presented a general theory of the airline network problem, a price-setting behavioural model and its numerical solution algorithm;
- specified a model for the Australia–Asia air travel market;
- modelled Ansett’s entry into Asian markets — the model suggested that Ansett’s entry had reduced airfares, increased passenger flows to Australia and increased Australian and foreign net economic welfare; and
- examined the impact of altering current Air Services Agreements by creating an open club of countries, in which club member airlines could fly as they wish between each others’ countries.

Staff working papers

Staff working papers are available on request but are not for quotation without the permission of the authors.

Labour market research: towards an agenda

Meredith Baker and Lynne Williams, September 1998

Minimum wages: a review of the literature

Johanna Travis and Lynne Williams, October 1998

Competitive neutrality complaints mechanisms by jurisdiction

Stewart Plain, CCNCO Draft information paper, December 1998

Feedback on international benchmarking of the Australian waterfront

Angelina Garces, January 1999

Table D.1: Speeches and presentations by the Chairman, Commissioners and staff, 1998-99

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Academic Board, University of Adelaide, Adelaide	Review of Higher Education Report: Learning for Life	July 1998
CEDA Public Education Forum, Brisbane	Why have a Productivity Commission?	Aug 1998
Victorian Economic Society Forum, Melbourne	Human capital and microeconomic reform	Sept 1998
Electricity Supply Association of Australia, Melbourne	Towards best practice regulation: the national 'standard'	Feb 1999
Productivity Commission/Melbourne Institute Conference: Policy Implications of the Ageing of Australia's Population, Melbourne	Opening address	March 1999
CEDA Trustees, Melbourne	Microeconomic reform: beauty or the beast?	March 1999
Senate Standing Committee on Regulations and Ordinances, Canberra (Chairman & staff)	Briefing on activities of the Office of Regulation Review, particularly monitoring compliance with the Government's Regulation Impact Statement requirements	March 1999
Australian Institute of Criminology/Australian Institute for Gambling Research: Second National Gambling Regulation Conference, Sydney	The Commission's inquiry into gambling	May 1999
Productivity Commission Workshop: Structural Adjustment – Exploring the Policy Issues, Canberra	Opening address	May 1999
House of Representatives Committee on Transport, Communications and the Arts, Canberra (Chairman, Associate Commissioner Derek Scrafton & staff)	Briefing on the Commission's inquiry on progress with rail reform and its international telecommunications benchmarking study	June 1999
Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy and the Senate Standing Committee on Rural and Regional Affairs and Transport, Canberra (Chairman & staff)	Joint briefing on the Commission's inquiry on the impact of competition policy reforms on rural and regional Australia	June 1999
Commissioners:		
CEDA, Melbourne (Richard Snape)	International air services	July 1998
ACCI Annual Conference, Melbourne (Judith Sloan)	Consolidating and progressing reform	July 1998

Industrial Relations Society of Queensland Congress, Surfers Paradise (Judith Sloan)	Work arrangements compared: coal, stevedoring and meat processing	Sept 1998
Economic Society of Australia Conference of Economists, Sydney (Richard Snape)	What form of trade agreement: GATT or Air Services?	Sept 1998
Productivity Commission Workshop on Industry Competitiveness, Trade and The Environment, Melbourne (Richard Snape)	Some implications of the Shrimp-Turtle Decision	Nov 1998
International Management Resources Conference: Rail Reform, Melbourne (Helen Owens)	Progress in rail reform	Feb 1999
Aged Care Australia National Policy Conference, Canberra (Mike Woods)	Session Chair	March 1999
Second Australasian Emissions Trading Industry Forum, Sydney (Neil Byron)	Kyoto forests – prospective providers of carbon sequestration services?	March 1999
NHMRC/Dept of Health and Aged Care, Health and Economics Workshop, Canberra (Helen Owens)	Role of competitive markets in Australia's health system	March 1999
Fenner Conference on Science, Policy and the Environment, Canberra (Neil Byron)	Going beyond the rhetoric: developing Australia sustainably	May 1999
NSW Mines Safety Legislative Reform Seminar, Sydney (John Cosgrove)	Black coal industry report – impact of safety legislation on mine safety	May 1999
Contribution of Research Evidence to Health Policy Conference, Sydney (Helen Owens)	Managed competition – the policy context: some thoughts	May 1999
Environmental Services & Land Use Change Conference: Bridging the Gap between Policy & Research in SE Asia, Chiang Mai University, Thailand (Neil Byron)	Summary of policy options for control of fires and haze in SE Asia	May/ June 1999
House of Representatives Standing Committees on Economics, Finance and Public Administration & Primary Industries and Regional Services, Canberra (John Cosgrove, Judith Sloan, Associate Commissioner Ray Braithwaite & staff)	Joint briefing on the Commission's inquiry on the impact of competition policy reforms on rural and regional Australia	June 1999
Joint Select Committee on the Retailing Sector, Canberra (John Cosgrove, Judith Sloan, Associate Commissioner Ray Braithwaite & staff)	Briefing on the Commission's inquiry on the impact of competition policy reforms on rural and regional Australia	June 1999
Economic Society of Victoria, Melbourne, (Judith Sloan)	National Competition Policy: Effect on Rural and Regional Australia	June 1999

(Continued next page)

Table D.1 Continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Staff:		
Department of Finance and Administration, Canberra (Simon Corden)	Performance measurement as a performance enhancement tool	July 1998
Industry Economics Conference 1998, Canberra (Peter Cribbett)	A comparison of institutional arrangements for road provision	July 1998
Australia's Social Policy Outlook: A Strategic Conversation, Canberra (Lynne Williams)	Round-table discussion on social policy	July 1998
ANU Lecture, Canberra (Paul Gretton)	Analysis of the contribution of productivity to growth	July 1998
Asia-Pacific Economic Review & Economic Modelling Bureau of Australia Conference, Canberra (Philippa Dee)	Discussant	Aug 1998
NT Government officials, Darwin (Jeff Byrne)	Report on government services and related research	Sept 1998
NSW Branch Economic Society Seminar: Unscrambling Telecommunications Policy, Canberra (Philippa Dee)	Telecommunications economics and policy issues	Sept 1998
Centre of Policy Studies Seminar, Melbourne (Tendai Gregan & Martin Johnson)	Aviation network modelling for the International Air Services Inquiry	Sept 1998
Australian Institute of Judicial Administrators Conference, Melbourne (Lawrence McDonald)	Evaluating performance of courts and tribunals: a whole of justice approach	Sept 1998
First Annual Institute of Judicial Administrators and Tribunals Conference, Melbourne (Lawrence McDonald)	Using comparative performance measurement to drive improvement in the justice system	Sept 1998
Small Enterprise Association of Australia and New Zealand Conference, Burnie (Ralph Lattimore)	Tax treatment of small business	Sept 1998
Research School of Pacific and Asian Studies Seminar, Canberra (Philippa Dee)	APEC early voluntary sectoral liberalisation	Sept 1998
Australasian Evaluation Society Conference, Melbourne (Simon Corden)	Interjurisdictional comparisons of performance	Oct 1998
Seminar for South Australian Government officials, Adelaide (Simon Corden)	Performance measurement as a performance enhancement tool	Oct 1998
NSW Country Meat Association Convention, Ballina (Lynne Williams)	Work arrangements in the Australian meat processing industry	Oct 1998

University of Canberra Seminar, Canberra (Duc Nguyen-Hong Paulene McCalman)	Youth wages and employment	Oct 1998
IIR Conference: Performance Measures for the Public Sector, Melbourne (Simon Corden)	Ensuring that your department measures up against other world class organisations	Oct 1998
National Building and Construction Committee, Sydney (Lynne Williams)	Briefing on the building and construction industry workplace arrangements study	Nov 1998
Australasian Treasury Officers Conference, Hobart (Simon Corden)	Performance measurement — comparing States and Territories	Nov 1998
Productivity Commission/Centre for Economic Policy Research Workshop, Canberra (Lynne Williams)	New empirical work in the area of youth wages	Nov 1998
Victorian Commercial Teachers Association Comview Conference 1998, Melbourne (Martin Johnson)	Enhancing Australia's competitiveness	Nov 1998
Australasian Computer Aided Despatch and Communications Users Group, Melbourne (Simon Corden)	Developing performance indicators for emergency services	Dec 1998
1999 American Economic Association Annual Meeting, New York (Don Gunasekera)	A quantitative analysis of anti-dumping in Australia	Jan 1999
Productivity Commission/Melbourne Institute Conference: Policy Implications of the Ageing of Australia's Population, Melbourne (Patrick Laplagne, Penny Taylor and Craig de Laine)	Implications of ageing for education policy	March 1999
Second Australasian Emissions Trading Industry Forum: Investing in the Clean Development Mechanisms (CMD) & Emissions, Sydney (Don Gunasekera)	Australian capabilities in the energy sector: potential use in CDM projects	March 1999
Centre for Corporate Public Affairs: 1999 Politics and Public Policy Review, Canberra (Robert Kerr)	Public policy and government business research agenda	March 1999
AJRC/Uni of Adelaide/Productivity Commission Workshop: Impediments to Trade in Services, Canberra (Tendai Gregan)	Modelling international air transport regulatory reform	March 1999
Australian Society of Certified Practising Accountants, Bulleen, Victoria, (Kate Pearson)	Performance measurement for government funded services	April 1999
1999 National Administrative Law Forum, Canberra (Lawrence McDonald)	Measuring administrative justice	April 1999
ABS Seminar on Capital Stock and Multifactor Productivity, Canberra (Dean Parham)	Policy perspectives on the measurement of Australia's productivity performance	May 1999

(Continued next page)

Table D.1 Continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
APEC Business Advisory Council 1999 Second Meeting, Tokyo (Greg McGuire)	Asia-Pacific restrictions on trade in financial services	May 1999
Master Builders Association Conference: Workplace Relations in the Building and Construction Industry, Sydney (Lynne Williams)	Work arrangements study on large capital city projects: progress to date	May 1999
Bureau of Rural Sciences Conference: Country Matters, Canberra (Don Gunasekera)	Performance monitoring of natural resource management policies	May 1999
Meeting of the Chairmen of Regional Development Boards of NSW, Sydney (Herb Plunkett)	Draft Report on the Impact of Competition Policy Reforms on Rural and Regional Australia	May 1999
Bureau of Transport Economics Transport Colloquium 1999, Canberra (Don Gunasekera)	Sustainable Development and transport policy	May 1999
APEC Study Consortium 1999 Conference, Auckland (Philippa Dee)	Issues in the application of CGE models to services trade liberalisation	May/ June 1999
Monash University Seminar, Melbourne (Lynne Williams)	Research at the Productivity Commission	June 1999
PECC Trade Policy Forum, Auckland (Michael Schuele)	Price impact of restrictions on trade in banking services	June 1999
PECC Trade Policy Forum, Auckland (Greg McGuire)	Restrictiveness of international trade in banking and maritime services	June 1999
Australasian Railway Association: 1999 Rail Infrastructure Summit, Melbourne (John Salerian)	Progress in rail reform	June 1999
Victorian Branch of the Evaluation Society, Melbourne (Simon Corden)	Developing and reporting comparative performance indicators	June 1999
Second Annual Conference on Global Economic Analysis, GI Avernaes, Denmark (George Verikios)	Modelling the effects of implementing the Uruguay Round	June 1999

E Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies completed in 1998-99. It also lists staff research papers and staff working papers, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all its publications.

Government-commissioned projects

Inquiries — draft reports and position papers

Draft reports and position papers can be obtained from the Commission during the course of an inquiry and from the Commission's website.

- Nursing Home Subsidies, Inquiry Position Paper (23 October 1998)
- Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies, Inquiry Draft Report (24 February 1999)
- Progress in Rail Reform, Inquiry Draft Report (30 March 1999)
- Impact of Competition Policy Reforms on Rural and Regional Australia, Inquiry Draft Report (18 May 1999)
- International Telecommunications Market Regulation, Inquiry Position Paper (18 June 1999)
- International Liner Cargo Shipping: A Review of Part X of the *Trade Practices Act 1974*, Inquiry Position Paper (29 June 1999)

Inquiries — final reports

Copies of final reports can be obtained from the Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *The Australian Black Coal Industry*, Inquiry Report No. 1 (3 July 1998)
- *International Air Services*, Inquiry Report No. 2 (11 September 1998)

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- *Pig and Pigeat Industries: Safeguard Action Against Imports*, Inquiry Report No. 3 (11 November 1998)
 - *Nursing Home Subsidies*, Inquiry Report No. 4 (13 January 1999)
 - *Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies*, Inquiry Report No. 5 (25 May 1998), not yet released by the Government

Case studies on work arrangements

Copies of final reports can be obtained from the Government Info Shops and from the Commission's website. The Work-in-Progress report on building projects was circulated to interested parties so that they could have input to the study before its finalisation.

- *Work Arrangements in the Australian Meat Processing Industry* (October 1998)
- *Work Arrangements on Large Capital City Building Projects*, Work-in-Progress (June 1999)

Other commissioned projects

Copies of commissioned studies can be obtained from the Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *Battery Eggs Sale and Production in the ACT*, Commission Research Report (October 1998)

Performance reporting

Steering Committee for the Review of Commonwealth/State Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Government Info Shops and from the Commission's website. Publications marked with an asterisk (*) and many previous Secretariat reports are also available on compact disc from the Commission.

- *Implementing Reforms in Government Services 1998*, Steering Committee Case Studies (September 1998) *
- *Superannuation in the Costing of Government Services*, Steering Committee Research Paper (September 1998) *

-
- *Outcome Measurement in Child Protection: International Literature Review and Critical Analysis of Child Protection and Alternative Placement Outcome Measures — Final Report*, Lyn Gain and Laurie Young, Consultancy Report prepared for the Steering Committee available from the Commission's website and on CD (September 1998)
 - *Feedback on the Report on Government Services*, Secretariat Paper available from the Commission (November 1998)
 - *Report on Government Services 1999, Volume 1: Education, Health, Justice* (February 1999) *
 - *Report on Government Services 1999, Volume 2: Emergency Management, Community Services, Housing* (February 1999) *

Other performance reporting and benchmarking

Copies of reports can be obtained from the Government Info Shops and from the Commission's website. The Pre-release Draft of the telecommunications study was circulated to interested parties so that they could have input to the study before its finalisation.

- *Performance of Government Trading Enterprises 1991-92 to 1996-97* (October 1998)
- *International Benchmarking of Australian Telecommunications Services*, Pre-release Draft (December 1998)
- *International Benchmarking of Australian Telecommunications Services* (March 1999)

Regulation review

Copies of the publication are available from the Office of Regulation Review and from the Commission's website.

- *A Guide to Regulation*, Second Edition (December 1998)

Competitive neutrality complaints

Copies of reports are available from the Commonwealth Competitive Neutrality Complaints Office and from the Commission's website.

- *Cost Allocation and Pricing*, Research Paper (October 1998)
- *Counter Terrorist First Response Services*, Investigation No. 1 (December 1998)

-
- *Rate of Return Issues*, Research Paper (December 1998)
 - *Competitive Neutrality Complaints Mechanisms by Jurisdictions*, Stewart Plain, CCNCO Draft information paper, (December 1998), available from the CCNCO

Supporting research and annual reporting

Copies of most reports can be obtained from the Government Info Shops and from the Commission's website. Requests for copies of submissions made by the Commission to other review bodies should be directed to the Commission. Most submissions can also be accessed from the Commission's website. Staff working papers are available only on request.

Annual reports

- *Annual Report 1997-98* (October 1998)
- *Trade and Assistance Review 1997-98* (November 1998)
- *Regulation and Its Review 1997-98* (December 1998)
- *Microeconomic Reform by Australian Governments 1997-98* (December 1998)

Commission research papers

- *Aspects of Structural Change in Australia* (December 1998)

Submissions to other review bodies

- Productivity Commission Submission to the Review of the NSW *Rural Assistance Act 1989* (September 1998)
- Productivity Commission Submission to the Tasmanian Dairy Industry Review (November 1998)
- Productivity Submission to the Review of Price Controls on Telstra (March 1999)
- Productivity Submission to the Victorian Dairy Industry Review (April 1999)

Conference/workshop proceedings

- *Microeconomic Reform and Productivity Growth*, Proceedings of a workshop held at the Australian National University, Canberra, 26–27 February 1998 (July 1998)
- *Industry Competitiveness, Trade and the Environment*, Papers from a Productivity Commission Workshop, Melbourne, 27 November 1998 (March 1999)

Staff research papers

- *APEC Early Voluntary Sectoral Liberalisation*, Philippa Dee, Alexis Hardin and Michael Schuele (July 1998)
- *Design Principles for Small Business Programs and Regulations*, Ralph Lattimore, Alan Madge, Barbara Martin and James Mills (August 1998)
- *Youth Wages and Employment*, Anne Daly, Duc Nguyen-Hong, Damien Eldridge, Owen Gabbitas and Paulene McCalman (October 1998)
- *Australia's Restrictions on Trade in Financial Services*, Greg McGuire (November 1998)
- *Trade-Related Aspects of Intellectual Property Rights*, John Revesz (May 1999)
- *The New Economy? A New Look at Australia's Productivity Performance*, Dean Parham (May 1999)
- *Impacts of Competition Enhancing Air Services Agreements: A Network Modelling Approach*, Tendai Gregan and Martin Johnson (June 1999)

Staff working papers

- *Labour Market Research: Towards an Agenda*, Meredith Baker and Lynne Williams (September 1998)
- *Minimum Wages: A Review of the Literature*, Johanna Travis and Lynne Williams (October 1998)
- *Competitive Neutrality Complaints Mechanisms by Jurisdiction*, Stewart Plain (December 1998)
- *Feedback on International Benchmarking of the Australian Waterfront*, Angelina Garces (January 1999)

Other publications

- *The Productivity Commission's Research Program 1998-99* (August 1998)
- *Digest of Current Research Projects* (July 1998 and February 1999)
- *pc update*, a quarterly information sheet on Productivity Commission activities, covers key events on the work program, major activities and publications released (Issue 2, September 1998; Issue 3, December 1998; Issue 4, March 1999; Issue 5, June 1999)

F Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 1998-99. The statements have been prepared on an accrual accounting basis.

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Productivity Commission
REVENUES AND EXPENSES
<i>for the year ended 30 June 1999</i>

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>\$'000</i>	<i>\$'000</i>
NET COST OF SERVICES			
Expenses			
Employees	3	15,990	16,399
Suppliers	3	5,175	5,661
Depreciation and amortisation	3	709	731
Write-down of assets	6	28	114
Net losses from sale of assets		-	4
Total expenses		21,902	22,909
Revenues from independent sources			
Sales of goods and services		113	61
Net gain from sale of assets		1	-
Total revenues from independent sources		114	61
Net cost of services		21,788	22,848
REVENUES FROM GOVERNMENT			
Appropriations used for:			
Ordinary annual services (net appropriations)	10	17,034	23,401
Other services		-	457
Resources received free of charge	4	66	54
Total revenues from government		17,100	23,912
Operating (deficit)/surplus	8	(4,688)	1,064
Accumulated results at 1 July		2,326	1,262
Accumulated results at 30 June		(2,362)	2,326

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission

ADMINISTERED REVENUES AND EXPENSES

for the year ended 30 June 1999

	<i>Note</i>	<i>1999</i> \$'000	<i>1998</i> \$'000
REVENUES			
NON TAXATION			
Other		-	14
Total revenues		-	14
Net contribution to government		-	14
TRANSFERS			
Cash to Official Commonwealth Public Account		-	(14)
Net change in administered assets		-	-
Accumulated results at 1 July		-	-
Accumulated results at 30 June		-	-

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
ASSETS AND LIABILITIES
<i>as at 30 June 1999</i>

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>\$'000</i>	<i>\$'000</i>
DEBT			
Other		50	60
Total debt		50	60
PROVISIONS AND PAYABLES			
Employees	7(a)	5,383	5,329
Suppliers	7(b)	177	225
Total provisions and payables		5,560	5,554
EQUITY			
Capital	8	1,562	-
Reserves		96	-
Accumulated results	8	(2,362)	2,326
Total equity		(704)	2,326
Total liabilities and equity		4,906	7,940
FINANCIAL ASSETS			
Cash		22	22
Receivables	5	1,686	4,430
Total financial assets		1,708	4,452
NON-FINANCIAL ASSETS			
Infrastructure, plant & equipment	6	2,721	2,922
Intangibles	6	346	408
Inventories		-	4
Other		131	154
Total non-financial assets		3,198	3,488
Total assets		4,906	7,940
Current liabilities		2,947	2,406
Non-current liabilities		2,613	3,208
Current assets		1,839	4,611
Non-current assets		3,067	3,329

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission

STATEMENT OF CASH FLOWS

for the year ended 30 June 1999

	<i>Note</i>	<i>1999</i> \$'000	<i>1998</i> \$'000
OPERATING ACTIVITIES			
Cash received			
Revenues from appropriations		21,166	21,851
Sales of goods and services		90	77
Total cash received		21,256	21,928
Cash used			
Employees		(15,935)	(15,838)
Suppliers		(5,333)	(6,107)
Total cash used		(21,268)	(21,945)
Net cash used by operating activities	9	(12)	(17)
INVESTING ACTIVITIES			
Cash received			
Revenues from appropriations		387	507
Proceeds from sales of plant and equipment		12	19
Total cash received		399	526
Cash used			
Purchase of plant and equipment		(387)	(507)
Total cash used		(387)	(507)
Net cash from investing activities		12	19
Net (decrease)/increase in cash held		-	2
add cash at 1 July		22	20
Cash at 30 June		22	22

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
ADMINISTERED STATEMENT OF CASH FLOWS
<i>for the year ended 30 June 1999</i>

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>\$'000</i>	<i>\$'000</i>
OPERATING ACTIVITIES			
Cash received			
NON TAXATION			
Other		-	14
Total cash received		-	14
Cash used			
Cash to Official Commonwealth Public Account		-	(14)
Total cash used		-	(14)
Net cash from operating activities		-	-
add cash at 1 July		-	-
Cash at 30 June		-	-

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
SCHEDULE OF COMMITMENTS
<i>for the year ended 30 June 1999</i>

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>\$'000</i>	<i>\$'000</i>
OTHER COMMITMENTS			
Operating leases		9,156	11,281
Other commitments		1,303	291
Total other commitments		10,459	11,572
BY MATURITY			
One year or less		2,147	1,696
From one to two years		1,668	1,599
From two to five years		4,887	4,890
Over five years		1,757	3,387
Total commitments		10,459	11,572

The above Statement should be read in conjunction with the accompanying notes

Productivity Commission
SCHEDULE OF CONTINGENCIES
<i>for the year ended 30 June 1999</i>

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>\$'000</i>	<i>\$'000</i>
CONTINGENT LOSSES		-	-
CONTINGENT GAINS		-	-
Net contingencies		-	-

The above Statement should be read in conjunction with the accompanying notes

Productivity Commission

Notes to and forming part of the Financial Statements for the Year Ended 30 June 1999

Note	Description
1	Functions
2	Summary of Significant Accounting Policies
3	Net Cost of Services - Expenses
4	Resources Received Free of Charge
5	Financial Assets
6	Non-financial Assets
7	Provisions and Payables
8	Equity
9	Cash Flow Reconciliation
10	Expenditure from Annual Appropriations
11	Receipts and Expenditure of the Reserve Money Fund
12	Act of Grace Payments and Waivers
13	Average Staffing
14	Remuneration of Executives
15	Contingencies
16	Financial Instruments

Note 1 Functions

The Commission operates as a single outcome within the Treasury portfolio. Its functions are described in Chapter 3 of the Annual Report.

Note 2 Summary of Significant Accounting Policies

2 (a) Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report. The statements have been prepared in accordance with Schedule 2 to the Financial Management and Accountability (FMA) Orders made by the Minister for Finance and Administration. Schedule 2 requires that the financial statements be prepared:

- in compliance with Australian Accounting Standards, Accounting Guidance Releases and Urgent Issues Group consensus views; and
- with regard to Australian Statements of Accounting Concepts.

The financial statements have been prepared on an accrual basis, and are in accordance with the historical cost convention, except for certain assets which, where noted, are at valuation. They do not take account of changing money values.

The Commission is an independent statutory authority and relies on appropriations by Parliament for its continued operations.

2 (b) Revenues from Government

Revenues from government are revenues relating to the core operating activities of the Commission. Policies for accounting for revenue from government follow; amounts and other details are given in notes.

Appropriations

Appropriations for Commission operations are recognised as revenue to the extent that appropriations are spent.

Appropriations have, until 1997-1998, been recognised as revenue in the year of appropriation, including any amounts unspent at year-end.

With the introduction of accrual budgeting by the Commonwealth, any unspent revenue will be re-appropriated to the Commission by way of a capital rather than revenue appropriation. Accordingly the carry-over is not recognised as revenue but directly as

equity in the financial statements for 1998-1999 as required by Department of Finance and Administration Estimates Memoranda 1999/27.

Resources Received Free of Charge

Resources received free of charge are recognised as revenue where the amounts can be reliably measured. Use of those resources is recognised as an expense.

2 (c) Other Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Agency revenue from the rendering of a service is recognised by the stage of completion of contracts or other agreements to provide services to other bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

All revenues described in this note are revenues relating to the core operating activities of the Commission, whether in its own right or on behalf of the Commonwealth, except for gains from the sale of agency assets. Details of revenue amounts are given in note 10.

2 (d) Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following items:

- receipts and expenditure of the reserve money fund;
- expenditure from annual appropriations;
- remuneration of executives; and
- remuneration of auditors.

2 (e) Employee Entitlements

Leave

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

The provision for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1999 and is recognised at the nominal amount. Long service leave is recognised in accordance with Department of Finance and Administration guidelines with

on-costs applied to account for such leave not taken as part of a separation payment. The current liability for long service leave is based on past history of payments.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken by employees is less than the annual entitlement for sick leave.

Separation and Redundancy

Provision is also made for separation and redundancy payments in circumstances where there is a clear intention to offer, and a reliable estimate of the amount of payments can be determined.

Superannuation Payments

Staff of the Commission contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$1,808,529 (\$1,655,265 in 1997-1998) have been expensed in these financial statements.

No liability is shown for superannuation in the Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

2 (f) Taxation

The Commission's activities are exempt from all forms of taxation except fringe benefits tax.

2 (g) Prepayments

Prepayments consist of amounts paid by the Commission in respect of goods and services, which have not been received at 30 June 1999.

2 (h) Cash

Cash includes notes and coins held and deposits held at call with a bank or financial institution.

2 (i) Infrastructure, Plant and Equipment

Asset Recognition Threshold

Infrastructure, plant and equipment consist of items having an individual cost/value in excess of \$2,000. Items costing less than this amount (other than where they form part of

a group of similar items, which are significant in total) are expensed in the year of acquisition.

Measurement of Assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Depreciation/Amortisation of Non-Current Assets

All non-current assets having a limited useful life are depreciated/amortised systematically over their estimated useful lives to the Commission, using the straight-line basis, and the rates are reviewed annually. Major depreciation/amortisation periods are:

<i>Asset Class</i>	<i>Total useful life</i>
Infrastructure, plant and equipment	
Leasehold improvements	lease term
Plant and equipment	3 to 10 years
Intangibles	
Computer software	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in note 6. Depreciation/amortisation rates applied in 1998-1999 are consistent with those used in 1997-1998.

Revaluations

Schedule 2 of the FMA Orders requires that infrastructure, plant and equipment be progressively revalued in accordance with the 'deprival method of revaluation' by 1 July 1999 and thereafter be revalued progressively on that basis every 3 years.

The Commission has implemented progressive revaluations as follows:

- plant and equipment was revalued initially in 30 June 1998; and
- the remaining assets (leasehold improvements) were revalued at 30 June 1999.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period. This has been estimated by calculating the written down replacement cost (see note 6).

2 (j) *Operating Leases*

Operating lease payments are charged to Revenues and Expenses on a basis which is representative of the pattern of benefits derived from the leased assets.

2 (k) *Creditors*

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1999, but which were unpaid at that date.

2 (l) *Insurance*

A new Commonwealth insurable risk managed fund, called “Comcover”, commenced operations as from 1 July 1998. From that date, the Commission has insured with the fund for risks other than workers’ compensation, which is dealt with under continuing arrangements with Comcare.

The new arrangements replace the previous policy where assets were not insured and losses were expensed as they are incurred.

2 (m) *Agency Items and Administered Items*

Agency assets, liabilities, revenues and expenses are those which are controlled by the Commission, including:

- infrastructure, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running cost appropriations (or from other appropriations for resources used in providing goods and services);
- revenues from user charges and profits on asset sales deemed to be appropriated pursuant to section 31 of the *Financial Management and Accountability Act 1997*; and
- employee expenses and other administrative expenses (including contracting out) incurred in providing goods and services.

The Commission had no administered transactions for 1998-1999. Administered assets, liabilities, revenues and expenses are those which are controlled by the Government and managed by the Commission in a fiduciary capacity.

The purpose of the separation of administered and agency items, is to enable the assessment of administered efficiency of the Commission in providing goods and services.

Administered items are distinguished from agency items by separate statements for Revenues and Expenses, and Cash Flows.

2 (n) *Lease Incentives*

Lease incentives taking the form of ‘free’ leasehold improvements are recognised as debt. The debt is reduced by allocating lease payments between rental expenses and the reduction in debt.

2 (o) *Financial Instruments*

Accounting policies for Financial Instruments are stated at note 16. The Commission is complying with requirements of *AAS 33 Presentation and Disclosure of Financial Instruments*, which applied to the Commission for the first time in 1997-1998.

2 (p) *Comparative Figures*

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the financial statements.

Note 3 Net Cost of Services — Expenses

The aggregate amounts shown as Expenses include the following classes of expenses:

Employee Expenses

	<i>1999</i>	<i>1998</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Remuneration (for services rendered)	15,383	15,650
Separation and redundancy	607	749
	15,990	16,399

Supplier Expenses

	<i>1999</i>	<i>1998</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Supply of goods and services	3,746	4,193
Operating lease rentals	1,429	1,468
	5,175	5,661

Depreciation and Amortisation

	<i>1999</i>	<i>1998</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Infrastructure, plant and equipment	619	721
Intangibles	90	10
	709	731

Note 4 Resources Received Free of Charge

The following resources received free of charge from other agencies have been recognised in the Revenues and Expenses:

	1999	1998
	(\$'000)	(\$'000)
Financial statement audit fee	35	40
Department of Finance & Administration services	2	2
Comcover	29	-
Other	-	12
	66	54

The Auditor-General provides financial statement services free of charge to the Commission. The fair value of the services was \$35,000 (1997-1998 \$40,000). The Auditor-General provided no other services.

The following resources received free of charge are not recognised, as the costs cannot be measured reliably:

Australian Archives — Storage and disposal facilities.

Note 5 Financial Assets

Receivables

	1999	1998
	(\$'000)	(\$'000)
Appropriations ¹	1,562	4,415
Productivity Commission staff	-	2
Goods and services	124	13
	1,686	4,430

1 Running cost appropriation carry-over at 30 June

The Commission had no doubtful debts at year-end. Of the total amount outstanding as at 30 June 1999, there were no amounts *overdue* (ie. unpaid after 30 days from date of issue of the debit advice).

Note 6 Non-financial Assets

Infrastructure, Plant and Equipment, and Intangibles

Table A Summary of all assets

	<i>1999</i>	<i>1998</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Leasehold Improvements		
Leasehold at cost	-	3,229
Accumulated amortisation	-	1,289
	-	1,940
Leasehold improvements at valuation (June 1999)	3,594	-
Accumulated amortisation	1,887	-
Total Leasehold Improvements	1,707	1,940
Plant and Equipment		
Plant and equipment at valuation (1997-1999)	2,007	1,759
Accumulated depreciation	993	777
Total Plant and Equipment	1,014	982
Total Infrastructure, Plant and Equipment	2,721	2,922
Intangibles		
Intangibles at cost	466	438
Accumulated amortisation	120	30
Total Intangibles	346	408
Total Infrastructure, Plant and Equipment, and Intangibles	3,067	3,330

Table B Movement summary 1998-1999 for all assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
Gross value (at cost)					
As at 1 July 1998	3,229	1,759	4,988	438	5,426
Additions	-	359	359	28	387
Disposals	-	(51)	(51)	-	(51)
Revaluations	365	(60)	305	-	305
As at 30 June 1999	3,594	2,007	5,601	466	6,067
Accumulated depreciation/amortisation					
As at 1 July 1998	1,289	777	2,066	30	2,096
Charge for additions	-	39	39	-	39
Charge for assets held 1 July 1998	330	250	580	90	670
Disposals	-	(41)	(41)	-	(41)
Adjustments for revaluations	268	(32)	236	-	236
As at 30 June 1999	1,887	993	2,880	120	3,000
Net book value as at 30 June 1999	1,707	1,014	2,721	346	3,067
Net book value as at 1 July 1998	1,940	982	2,922	408	3,330

The revaluation of leasehold improvements was done as at 30 June 1999 in accordance with progressive revaluation policy stated at note 2 (i) and was completed by Mr W Philpott CPV, an employee of the Australian Valuation Office, a body independent to the Commission. Plant and equipment was revalued at 30 June 1998. The 'deprival method of valuation' was adopted as the basis of valuation, which was estimated by calculating the written down replacement cost.

Table C Summary of valuation adjustments as at 30 June 1999

	1999 (\$'000)	1998 (\$'000)
Valuation		
Cost adjustment	305	(1,211)
Depreciation adjustment	(236)	1,097
Net increment/(decrement) on revaluation	69	(114)

Note 7 Provisions and Payables

7 (a) Liabilities to employees

	1999	1998
	(\$'000)	(\$'000)
Salaries and wages	258	840
Annual leave	1,887	1,460
Long service leave	3,113	2,753
Superannuation	39	59
Staff redundancies	50	160
Other	36	57
	5,383	5,329

7 (b) Suppliers

	1999	1998
	(\$'000)	(\$'000)
Trade creditors	177	225
	177	225

Note 8 Equity

	1999	1998
	(\$'000)	(\$'000)
Opening balance at 1 July	2,326	1,262
Capital ¹	1,562	-
Reserves	96	-
Operating result	(4,688)	1,064
Balance at 30 June	(704)	2,326

1 Running cost appropriation carry-over at 30 June 1999.

The operating result for 1998-1999 has been determined using a different accounting treatment of the appropriation carry-over at 30 June 1999 as required by the Department of Finance and Administration (see note 2 (b)). The carry-over is to be funded to the Commission as a capital appropriation in the 1999-2000 Additional Estimates and not as running costs appropriation, as has previously been the case. Consequently, the operating results for the two years are not comparable, as the basis for determining revenue has changed directly impacting on the operating result.

Note 9 Cash Flow Reconciliation

A reconciliation of net cost of services to net cash provided or used by operating activities is shown below:

	<i>1999</i>	<i>1998</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Net cost of services	(21,788)	(22,848)
Revenue from government for operating activities	16,737	23,405
Depreciation and amortisation	709	731
(Profit)/loss on sale of assets	(1)	4
(Increase)/decrease in financial assets	2,744	(1,484)
Decrease in non-financial assets	27	81
Increase in provisions and payables	54	562
(Decrease) in creditors	(48)	(572)
Decrease in debt	(10)	(10)
Revaluation adjustment	(69)	114
Equity	1,562	-
Net cash used by operating activities	(12)	(17)

Note 10 Expenditure from Annual Appropriations

	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>Budget</i>	<i>Additional</i>	<i>Total</i>	<i>Actual</i>	<i>Actual</i>
	<i>Estimates</i>	<i>Appropriations</i>	<i>Appropriations</i>	<i>Expenditure</i>	<i>Expenditure</i>
	<i>Act No. 1</i>	<i>Act No. 3</i>			
	(\$)	(\$)	(\$)	(\$)	(\$)
Ordinary Annual Services of Government Appropriation Act Running Costs					
Division 678 - Industry Commission					17,403,336
Division 680 - Productivity Commission	19,905,000	3,106,000	23,011,000	21,552,423	4,254,615
	19,905,000	3,106,000	23,011,000	21,552,423	21,657,951
Other Services					
Contribution to Impact/Cops project					
Division 678 - Industry Commission					379,100
Division 680 - Productivity Commission	-	-	-	-	408,900
	-	-	-	-	788,000
Total - Appropriation Acts Nos 1 and 3	19,905,000	3,106,000	23,011,000	21,552,423	22,445,951

Reconciliation of Commission Running Costs

	1999	1998
	(\$)	(\$)
Running cost appropriation		
Industry Commission	-	25,983,000
Productivity Commission	23,011,000	-
	23,011,000	25,983,000
Running cost appropriation spent		
Industry Commission	-	17,403,336
Productivity Commission	21,552,423	4,254,615
	21,552,423	21,657,951
less: appropriation under FMA Act section 31	(102,933)	(89,422)
Net running cost appropriation spent	21,449,490	21,568,529
add: carry-over 30 June ¹	-	4,415,471
less: carry-over 1 July	(4,415,471)	(2,583,000)
Running Costs Revenue (included in Statement of Revenue and Expenses)	17,034,019	23,401,000
Revenue from government - ordinary annual services (per Statement of Revenues and Expenses)	17,034,019	23,401,000

1 The ending carry-over at 30 June 1999 of \$1,561,510 is now recognised as Equity - Capital (see note 8) and not appropriation revenue in the Statement of Revenue and Expenses, in accordance with Department of Finance and Administration Estimates Memoranda 1999/27.

Note 11 Receipts and Expenditure of the Reserve Money Fund

Transactions under the trust fund relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE. Legal authority for such transactions is section 20 of the *Financial Management and Accountability Act 1997*.

	1999	1998
	(\$)	(\$)
Services for other governments and non FMA bodies		
Opening balance	8,647	227,820
Receipts		
From other sources	124,987	30,827
From realisation of investments	250,000	-
	374,987	258,647
Expenditure		
For operations	128,442	-
Investments by DoFA	-	(250,000)
Closing balance	255,192	8,647

Note 12 Act of Grace Payments and Waivers

12 (a) Act of grace payments

No act of grace payments were made during the reporting period.

12 (b) Waiver of rights to payment of moneys

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

Note 13 Average Staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	<i>1999</i>	<i>1998</i>
	<i>No</i>	<i>No</i>
Average staffing level	203	218

Further information on staffing levels is provided in Appendix A of the Annual Report.

Note 14 Remuneration of Executives

The amounts of total remuneration received/receivable by Holders of Public Office and Senior Executive Service staff, where such amounts exceed \$100,000 during the year, are shown in the table.

For 1998-1999 total remuneration includes salary, superannuation, performance pay, accrued leave and other package components such as executive vehicle.

	1999	1998
Total remuneration	<i>No.</i>	<i>No.</i>
\$100,000 to \$110,000	1	1
\$110,000 to \$120,000	1	4
\$120,000 to \$130,000	5	12
\$130,000 to \$140,000	5	1
\$140,000 to \$150,000	4	3
\$150,000 to \$160,000	-	1
\$160,000 to \$170,000	2	1
\$170,000 to \$180,000	2	1
\$180,000 to \$190,000	1	1
\$190,000 to \$200,000	1	1
\$200,000 to \$210,000	-	-
\$210,000 to \$220,000	1	-
	23	26
Aggregate amount of total remuneration of executives shown above	\$3,352,888	\$3,511,076
Aggregate amount of performance pay during the year to executives shown above	\$156,477 ¹	\$128,493 ¹
Aggregate amount of redundancy payments during the year to executives	\$208,781 ²	\$91,438 ²

1 Included in total remuneration

2 Excluded from aggregate total remuneration above and represents the redundancy component of packages paid

Note 15 Contingencies

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities that would have any material effect on the financial statements.

Note 16 Financial Instruments

16 (a) Terms, conditions and accounting policies

Financial Instrument	Note	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
<u>Financial Assets</u>			
		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash		Deposits are recognised at their nominal amounts.	The Commission maintains advance accounts, which bear no interest.
Receivables	5	These receivables are recognised at nominal amounts due less any provision for doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are net 30 days (1998: 30 days).
<u>Financial Liabilities</u>			
		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Lease incentives		The lease incentive is recognised as a liability on receipt of the incentive. The amount of liability is reduced on a straight-line over the life of the lease by allocating lease payments between rental expense and the reduction of the liability.	The Commission received a fitout incentive on entering a property operating lease in September 1996. Lease payments are made monthly.
Trade creditors	7	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

16 (b) Interest rate risk

The Commission does not have any interest-bearing financial assets or liabilities.

16 (c) *Net fair values of financial assets and liabilities*

The net fair values of cash and non-interest-bearing financial assets, lease incentive liability and trade creditors equate to their carrying amounts.

16 (d) *Credit risk exposures*

The Commission's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Assets and Liabilities.

The Commission has no significant exposures to any concentrations of credit risk.

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