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Publications Inquiries:

Media and Publications
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

Tel: (03) 9653 2244
Fax: (03) 9653 2303
Email: maps@pc.gov.au

General Inquiries:

Tel: (03) 9653 2100 or (02) 6240 3200

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The Productivity Commission

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

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

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21 OCT 2009



Australian Government
Productivity Commission

The Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

We submit to you the Productivity Commission's annual report for 2008-09. The report is prepared in accordance with section 10 of the *Productivity Commission Act 1998*. The Commission's Act requires that a copy of this report be tabled within 15 sitting days of each House of Parliament after the day of receipt of the report.

Yours sincerely

Handwritten signature of Gary Banks in cursive.

Gary Banks
Chairman

Handwritten signature of Angela MacRae in cursive.

Angela MacRae
Commissioner

Handwritten signature of Michael Woods in cursive.

Michael Woods
Deputy Chairman

Handwritten signature of Patricia Scott in cursive.

Patricia Scott
Commissioner

Handwritten signature of Neil Byron in cursive.

Neil Byron
Commissioner

Handwritten signature of Judith Sloan in cursive.

Judith Sloan
Commissioner

Handwritten signature of Wendy Craik in cursive.

Wendy Craik
Commissioner

Handwritten signature of Louise Sylvan in cursive.

Louise Sylvan
Commissioner

Handwritten signature of Robert Fitzgerald in cursive.

Robert Fitzgerald
Commissioner

Handwritten signature of Philip Weickhardt in cursive.

Philip Weickhardt
Commissioner

Handwritten signature of David Kalisch in cursive.

David Kalisch
Commissioner

Chairman and Commissioners



Siobhan McKenna, Gary Banks (Chairman) and Judith Sloan



Angela MacRae, Louise Sylvan and Robert Fitzgerald



Mike Woods (Deputy Chairman), David Kalisch and Philip Weickhardt



Patricia Scott, Neil Byron and Wendy Craik

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

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
ANZSOG	Australia and New Zealand School of Government
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
BRCWG	Business Regulation and Competition Working Group (COAG)
CAGP	China Australia Governance Program
COAG	Council of Australian Governments
CPRS	Carbon Pollution Reduction Scheme
CRC	COAG Reform Council
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTEs	Government trading enterprises
IMF	International Monetary Fund
MFP	multifactor productivity
NATSEM	National Centre for Social and Economic Modelling
NCP	National Competition Policy
NRA	National Reform Agenda
OECD	Organisation of Economic Cooperation and Development
OHS	Occupation health and safety
OID	<i>Overcoming Indigenous Disadvantage</i> report

PC	Productivity Commission
PTA	Preferential Trade Agreement
R&D	Research and development
ROGS	Report on Government Services
SES	Senior Executive Service
WTO	World Trade Organization

1 Reform beyond the crisis

The global financial crisis and associated economic downturn have highlighted the importance of maintaining open and liberal trade policies. There has been a rapid contraction in world trade since 2008. In today's highly integrated global economy, any shift towards protectionist policies that locked-in such low levels of trade would come at a high cost.

The origins of the crisis, along with the substantial support delivered to the financial sector, have raised questions about the appropriateness of financial regulations and their administration in some countries. An efficient financial sector is crucially important to the world economy. Governments need to carefully consider how support is best phased out and what changes to regulations are necessary for the longer term.

The changed economic environment has a number of important implications for the nature and timing of national economic reform. Reforms that can most readily promote flexibility in labour and capital markets and ease fiscal pressures will be particularly important. Sound policy evaluation will be a central element in achieving these outcomes.

What has happened so far?

The emergence of the crisis

Although the crisis first emerged in housing and financial markets in 2007, it had a longer gestation. Some analysts had for some time expressed concerns about the risk of a disorderly resolution of imbalances in savings and investment between countries (OECD 2007; IMF 2005, 2007; Wolf 2005), rapid increases in house prices (IMF 2006b) and concerns over the assessment of risk in the United States housing market and the increased risk of certain financial innovations (Rajan 2005). As Olivier Blanchard, Chief Economist of the International Monetary Fund (IMF), described the emergence of the crisis:

... In the first half of the 2000s, a benign environment led investors, firms, and consumers to expect a permanently bright future and to underestimate risk. Housing and other asset prices shot up, risky assets were created and sold as being nearly riskless, and leverage increased. So when housing prices turned around, and subprime mortgages and the securities based on them turned sour, the stage was set for the crisis. In the context of rapid global integration and deep and complex interconnections between financial institutions, the crisis quickly moved across assets, markets, and economies. (Blanchard 2008, p. 8)

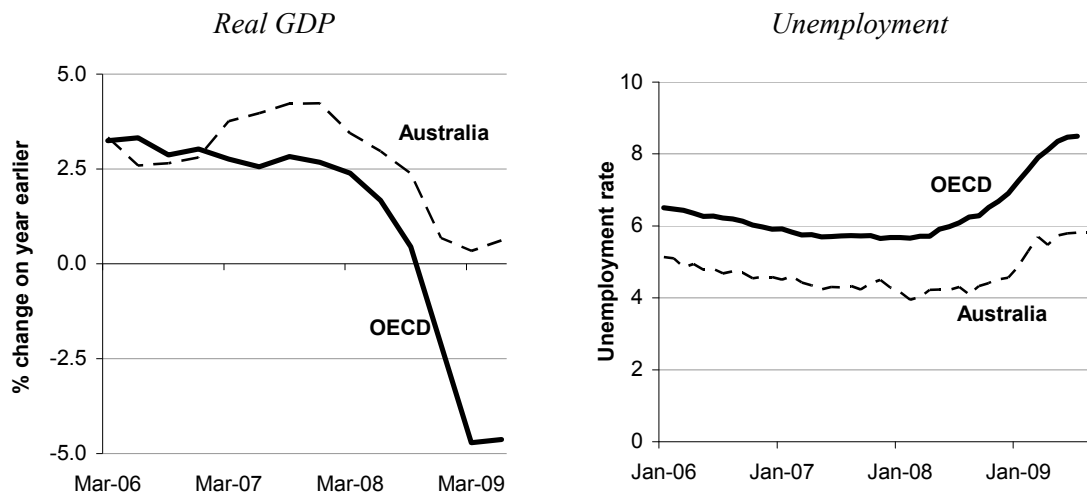
The collapse of financial markets and economic activity was initially most severe in the United States and Europe, but other countries were subsequently affected in two main ways.

- Reductions in economic activity in the United States and Europe reduced their demand for imports, causing world trade and commodity prices to drop. This particularly affected countries that relied heavily on trade for their economic growth, such as China, South Korea, Japan and Singapore. Prior to the crisis, East Asian exports to Europe and North America amounted to 12 per cent of the region's GDP (Pisani-Ferry and Santos 2009).
- A general reduction in demand for riskier assets reduced asset prices and the ability of firms to access finance. The collapse in confidence and consequent withdrawals of credit from global financial markets contributed to asset prices falling and a general 'flight to quality' in capital markets. Even when funds were available, higher financing costs threatened the viability of ongoing, or planned, investment projects.

As a result, world production and employment contracted dramatically in late 2008 (figure 1.1). Rapid falls in international trade were amplified by highly integrated global supply chains, and the reliance of trade flows on access to trade finance (Escaith and Gonguet 2009).

Australia has not experienced as severe a contraction in either production or employment compared to other countries. In part, this is because Australia's financial sector has remained comparatively resilient (box 1.1). The Australian Government has also provided substantial fiscal stimulus, amounting to 5.4 per cent of GDP, the third largest fiscal stimulus package (relative to GDP) among OECD countries (OECD 2009i).

Figure 1.1 **Gross domestic product and unemployment^a**



^a The Gross Domestic Product (GDP) chart shows the percentage change from the corresponding quarter in the previous year.

Source: OECD (2009h).

Policy responses to the crisis

There has been broad international agreement on the need for coordinated macroeconomic policies to help reverse the dramatic declines in world production and output. At a meeting in March 2009, G-20 finance ministers and central bank governors noted that:

We have taken decisive, coordinated and comprehensive action to boost demand and jobs, and are prepared to take whatever action is necessary until growth is restored ... Acting together strengthens the impact and the exceptional policy actions announced so far must be implemented without delay. (G-20 2009)

Measures to stimulate economic activity and support financial markets have been the most immediate policy responses by governments and central banks.

They have taken coordinated and unprecedented action to ease monetary and fiscal policy settings, such as through cuts in official interest rates, purchases of long-term government bonds (quantitative easing), cuts in income and other taxes and direct investments in infrastructure and other projects. Combined with decreases in government revenue — associated with falls in economic activity — several of these policies have the effect of substantially raising the level of public debt.

Box 1.1 **Australia's financial system and the crisis**

The effect of the financial crisis on Australia's financial sector has been less severe than in most other countries. Australia's major banks have retained their credit ratings (four of the world's nine AA-rated banks, as rated by Standard & Poor's, are Australian). And no Australian bank or other authorised deposit taking institution has failed, while in the United States, over 100 banks failed between January 2007 and August 2009 (FDIC 2009).

A number of reasons have been suggested for the relative resilience of Australia's financial sector.

- Australia has a coordinated and centralised framework for the regulation of most financial enterprises. Gruen (2009) has argued that Australia's "more coherent regulatory structure", with the Australian Prudential Regulation Authority (APRA) acting as the single prudential regulator for the financial services industry, has helped avoid some of the issues experienced elsewhere. The evolution of Australia's system of financial regulation has been guided by a number of major reviews (Campbell (1981) and Wallis (1997)), the lessons of the East Asian financial crisis in 1997 and the collapse of HIH Insurance in 2001. In addition, following some earlier warnings of the risks of booming house prices and increased household debt (Macfarlane 2002), APRA stress-tested the capacity of financial institutions to withstand economic shocks. Also, in 2006, the IMF (2006a) undertook additional stress tests of major Australian banks under the Financial Sector Assessment Program.

- Some policy settings may have insulated Australia from the trends that emerged in other financial markets. On the role of the four pillars policy, the former Reserve Bank of Australia Governor, Ian Macfarlane commented:

It's hard to avoid the conclusion that the difference was there was no competition for corporate control in Australia. That saved us from the worst excesses that characterized banking systems overseas. (Macfarlane 2009)

He further noted that there was not an excess pool of funds in Australia for which overseas investment opportunities needed to be found. This contributed to Australian banks not becoming large investors in subprime mortgages or 'exotic' assets.

- The Australian Government responded quickly, with guarantees of deposits and wholesale funding for deposit-taking institutions, along with other support for the financial sector. Australian institutions have accounted for 9 per cent of global issuance of government guaranteed debt between October 2008 and May 2009 (BIS 2009). This may have ameliorated earlier concerns about the exposure of Australian financial institutions to wholesale funding markets.

Support for financial markets and institutions has included guarantees of liabilities, purchases of illiquid assets (or their acceptance as security for loans) and equity contributions to troubled institutions, including (in some cases) government ownership. Some countries have linked this support to greater lending to domestic firms.

In the past year, there has also been a trend towards more trade-restricting policies. Although some countries, including Australia, have reduced barriers, trade-restricting measures have outnumbered trade-liberalising measures by at least two to one (WTO 2009c). With respect to new protective measures, there has not been substantial resort to traditional forms of border protection such as tariffs. However, on some estimates, governments have implemented over 150 protectionist measures since September 2008 — although the lack of historical data makes it difficult to ascertain whether this represents an increase from previous periods (box 1.2).

Most of the trade barriers introduced have been in areas where temporary barriers are permitted or where rules are not applicable. The most common include anti-dumping duties, subsidies to local production (particularly to the financial and automotive sectors) and non-tariff barriers (such as licensing conditions). Some governments have also introduced government purchasing preferences.

Policy settings for recovery

While short-term measures have been important in stabilising financial markets and improving macroeconomic conditions, longer-term measures and structural policies will be factors in determining how quickly the economy recovers, and the strength of future productivity and economic growth. To achieve rapid recovery and strong long-term growth, it will be important that governments:

- avoid resorting to policies that erect new barriers to trade, which may amplify the already rapid declines in trade, and potentially have long-lasting negative effects on world economic activity
- adopt financial regulations and institutional reforms that can strengthen the financial system, while not unduly restricting competition and innovation in financial services
- progress regulatory, competition and other structural policy reforms that encourage the best use of scarce capital and labour resources, which in turn will boost productivity, national income and government revenue.

Box 1.2 Recent changes in trade policies

The number of protectionist measures have outnumbered liberalising measures by at least two to one over the past year (WTO 2009c). In large part, protectionist measures have been concentrated in areas where temporary barriers are permitted (eg anti-dumping and safeguard measures) or where rules are not applicable.

- Most countries that have raised tariffs remain below the bound rates under the WTO or are not WTO members. For example, Russia (not a WTO member) has raised tariffs from 25 to 30 per cent on vehicles, as well as increasing tariffs on a range of other imports. India has raised tariffs on steel products and on aluminium imports from China within the range permitted by its tariff bindings.
- Some countries have implemented 'behind-the-border' mechanisms, which are less transparent than tariffs but have the same potential to restrict trade. Mandated 'buy local' government procurement policies, subsidies to certain industries and restrictive ad-hoc licensing requirements on imported goods are examples.
 - Enacted in February 2009, the *American Recovery and Reinvestment Act* requires federally funded projects in the United States to use locally-produced iron, steel and other manufactures (to the extent that this does not contravene trade obligations). Some governments in China, Canada, Japan and Australia (New South Wales) have also introduced purchasing preferences for locally produced goods.
 - Governments in at least ten countries have provided additional assistance to the automotive sector since the beginning of the financial crisis.
- Some countries have introduced or strengthened price support measures. For example, during 2009, the European Union and the United States have reintroduced previously suspended export subsidies for butter, cheese and skim milk powder and in the United States, support prices for selected dairy products have increased.
- There has also been some resort to temporary safeguard actions permissible under WTO rules, including an increase in the number of anti-dumping investigations. The number of investigations launched in 2008 was 28 per cent higher than in 2007. (Anti-dumping actions are typically counter-cyclical in nature and have yet to reach their previous peak.) The recent action by the United States to impose an additional 35 per cent tariff on tyre imports from China was undertaken as a temporary safeguard action.
- Some countries have introduced bans on imports of specific products — in some cases citing health and safety reasons. For example, some have banned pork and pork products in response to the A(H1N1) (swine) influenza pandemic, and India has banned Chinese toys due to concerns over lead-based paints.

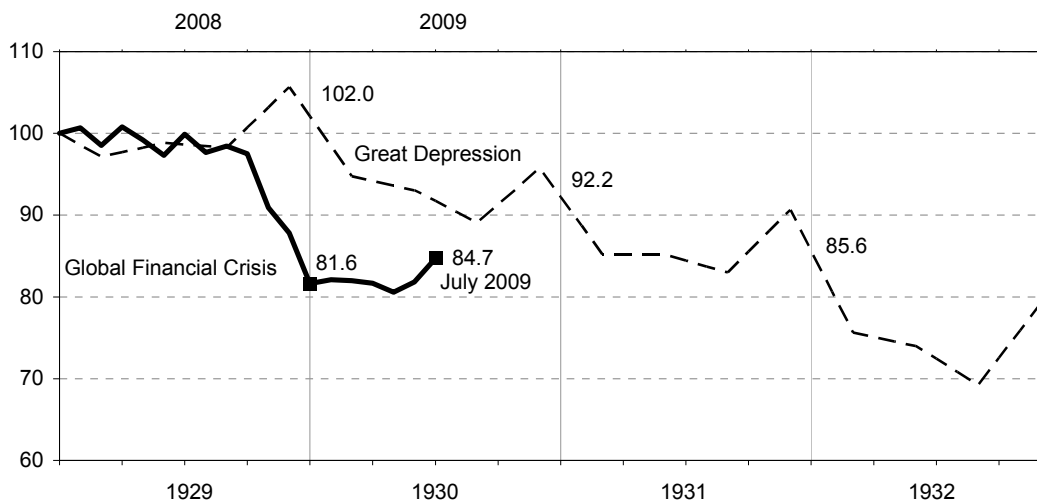
Notwithstanding the number of protective measures over the past year, some countries have recently reduced barriers. For example Australia, Brazil, China, India, Indonesia, Mexico and Russia have reduced some tariffs, and Australia, China and Malaysia have eased restrictions on foreign investment.

Sources: WTO (2009a, 2009b, 2009c); WTO, OECD and UNCTAD (2009); GTA (2009); CEPR (2009).

The costs of higher protection

Recent contractions in world trade have been more severe and more rapid than those that occurred in the early stages of the Great Depression (figure 1.2). From its peak in April 2008, the volume of world merchandise trade has fallen by 16 per cent to July 2009. In general terms, trade flows grow faster than output in expansions, and fall faster in recessions. Protectionism can exaggerate such declines.

Figure 1.2 **World merchandise trade by volume**



Source: CPB (2009); League of Nations (1939).

The large reductions in trade during the Great Depression were exacerbated by the protectionist policies of many governments during the 1930s. The Smoot-Hawley legislation in the United States led the way, increasing tariffs on over 20 000 imported goods. Other countries responded by raising their own barriers. Protection levels more than doubled in the early 1930s in the United Kingdom, Germany, France and Italy. Some studies suggest that the protectionism of the 1930s explains at least 40 per cent of the drop in world trade (Madsen 2001; Crucini and Kahn 2003).

In the face of the severe reductions in trade evident in the current downturn, the OECD issued an early warning of the dangers of protectionism:

Open markets for trade and investment are a key driver of economic growth and development. Keeping markets open will therefore be an essential condition for recovery and long-term growth. Yet, just as the need to maintain open markets is greatest, concerns about the consequences of liberalisation and the perception that liberalisation may have even contributed to the current crisis have been growing. If these concerns result in a wavering commitment to multilateralism and in rising protectionism, the crisis will become even worse and recovery will be delayed. (OECD 2008e, p. 8)

Risks of protectionism may be lower than in the past

While there has been an increase in protection over the past year there has not been widespread resort to protectionist measures. Some features of the modern trade environment, evolving since World War II, make this less likely than in previous economic downturns.

First, unlike the 1930s, multilateral trade rules provide a brake against an increase in protection. The Director-General of the World Trade Organisation (WTO) has observed that WTO rules ‘... provide a strong defence, and a unique insurance policy, against that happening’ (Lamy 2009). This is because many advanced economies have negotiated under WTO rules to bind tariffs at rates not much above currently applied levels. Countries that raised tariffs above these levels would risk losing concessions and possibly face sanctioned, retaliatory action. In addition, WTO rules currently forbid the use of quotas and export subsidies (for all but agricultural products) and, in some instances, restrain the use of other protectionist measures.

Second, governments now have greater policy flexibility in responding to an economic downturn than in the 1930s. For example, in the 1930s, while governments adhered to the gold standard they could not implement independent and expansionary monetary policies. Policy attitudes of the day also restricted fiscal expansion. This lack of flexibility led some countries to adopt protectionist responses as a tool of short-term economic management. In particular, there is some evidence that during the Great Depression, protection increased more in countries that remained on the gold standard (Eichengreen and Irwin 2009).

Third, the more highly integrated nature of modern production processes involves components and partly-finished manufactures crossing borders more than in the past. In other words, world trade flows are now marked by greater vertical specialisation and intra-industry, cross-border trade. In OECD countries, 44 per cent of the average value of manufacturing output in 2005 was made up of imported inputs, up from 38 per cent in 1995 (OECD 2009g). In this environment, attempts to protect domestic industries through border measures are likely to impose higher domestic costs than before, and face greater domestic resistance. For example, two major American tyre companies recently opposed increased tariffs on tyre imports from China, because it would disrupt their Chinese-based operations (ICTSD 2009).

But risks remain and the costs may be larger

The more highly integrated nature of the world economy also means that changes in economic activity may have proportionately larger impacts on trade than in the past. This can be seen in the very sharp drop in trade experienced since the onset of the

crisis. In this environment, additional trade barriers could amplify output and trade declines and impair economic performance long beyond the crisis. The OECD has recently commented:

The long-term implications of policy measures enacted during a crisis have sometimes been more important than the short-term beneficial effects on the crisis itself. The much greater degree of global economic integration today implies that even seemingly small restrictions would have larger economic impact, harming not only partner country economies and collective efforts to recover from the crisis but also the economy of the country applying the measure. (OECD 2009f, p. 4)

Moreover, the rules that govern the world trading system are not comprehensive — they do not cover all aspects of trade between countries, and not all countries are signatories to all provisions. WTO disciplines on ‘behind-the-border’ measures are generally less stringent than those placed on tariffs, quotas and export subsidies. WTO members can subsidise domestic production within certain constraints. In addition, only 41 WTO members are parties to the Agreement on Government Procurement, which aims to enhance the transparency of rules and laws regarding government procurement and ensure that they do not discriminate against foreign products or suppliers.¹ As noted above, a number of governments have recently introduced procurement policies that give preference to domestic suppliers.

There is also considerable potential for trade measures ostensibly aimed at health, safety and environmental objectives to be misused to protect domestic industries. Under existing WTO rules, countries can introduce trade barriers that are necessary to meet objectives in these areas. In this respect, some recent proposals for reducing carbon emissions propose a border tax on goods sourced from countries that do not have equivalent or more stringent programs to reduce carbon emissions. A recent joint report by the WTO and the United Nations Environment Program emphasised that a key challenge will be to prevent such proposals becoming a vehicle for disguised protectionism (WTO-UNEP 2009).

In addition, the number of preferential, regional or bilateral trade agreements has grown from nine in 1962 to around 230 today. The recent proliferation of preferential trade agreements (PTAs) may exacerbate the effects of increases in trade barriers. Although PTAs can capture some of the benefits associated with trade liberalisation, they can also divert trade to more costly suppliers and distort production and investment decisions. These distortions will be higher, the higher are a country’s customs tariffs and other non-preferential trade barriers.

¹ The WTO Agreement on Government Procurement is currently being revised to increase its coverage of procurement matters. Australia is not a member of the agreement but has obligations in regards to procurement in its trade agreements with the United States, New Zealand, Singapore and Chile.

What damage could increases in global protection do?

To illustrate the possible consequences of increased global protection, the Commission has modelled two scenarios involving increases in trade barriers (box 1.3). The results illustrate the magnitude of the potential costs of increased protection, all else unchanged. They are projections dependent on the modelling assumptions; not forecasts of what might actually happen. Although these estimates explicitly model the effects of increased tariffs, the results can also serve as a broad proxy for the general economic impact of other increases in protection (including subsidies or government procurement preferences).

In the first scenario, the Commission considered the potential costs of countries increasing their tariff rates to levels allowable under WTO rules (that is, applied rates increasing to equal the existing bound rates). If rates were to increase just to bound levels, a substantial fall in global output could eventuate — amounting to a fall of nearly 2 per cent of global output, that is around A\$1 trillion, and an associated drop in world trade of around 8 per cent, in the longer run.

In the second scenario, the Commission considered the potential costs of a more widespread resort to protectionism. In doing so, it modelled larger increases in protection, involving countries breaching their WTO obligations — raising tariffs on sensitive products such that average tariffs reached 20 per cent (close to the *level* to which many countries' average tariffs increased during the 1930s). Under this more extreme scenario, economic output could fall by around 3 per cent, or over A\$1.5 trillion.

Although the likelihood of such a protectionist response may be considered relatively low, the estimated size of these changes indicates the importance of defending the existing, liberal trading arrangements.

- The estimated costs of the high protection scenario are almost three times the projected decline in world GDP for 2009 of 1 per cent (IMF 2009e). More importantly, while world GDP is forecast to return to growth in 2010, the costs of increased protection would persist, manifesting as a curtailed recovery from the economic downturn.
- The impact on global output of the high protection scenario is significantly above the scenario in which protection increases only to WTO-allowable levels. While the Commission stresses the illustrative nature of these results, they clearly highlight the benefits of the negotiated rules of the existing multilateral trading system, and the importance of continuing adherence to them.

-
- While there has not been substantial resort to protection to date, unemployment is still rising in many countries. As a result, pressure to protect vulnerable industries is likely to increase.

Box 1.3 Estimating the consequences of protection

The current piecemeal protectionist responses, noted by the WTO, are likely to reduce trade and growth and potentially dampen recovery. Larger and more widespread protectionist responses would raise potential impacts and costs.

While it is not possible to foresee how border protection levels might rise, modelling of tariff-change scenarios can provide an indication of the impacts and costs of illustrative increases. For this report, two scenarios were considered.

- Under the first scenario, tariff rates in all countries (except the 'entrepot economies' of Hong Kong and Singapore) are projected to increase to the rates allowable under WTO rules, so-called 'bound' rates. Tariff rates in the United States, China, Taiwan and the European Union change little in this scenario, since most of their tariffs are currently applied at bound rates.
- Under the second scenario, tariff rates on items of merchandise trade on a number of sensitive products (except in Hong Kong and Singapore) increase proportionately such that each country's average tariff increases to 20 per cent. The sensitive products include dairy products, iron and steel, motor vehicles and parts, chemicals and plastics and textiles and clothing. According to the WTO (2009c), recent protectionist measures have been concentrated in these sectors.

The Commission has used the GTAP model, a well-known, multi-region and multi-sectoral general equilibrium model, to estimate the potential longer-run impacts of these scenarios. For the purposes of these calculations, the GTAP database has been aggregated into 20 individual national economies and 5 multi-country, regional groups. There are 57 industry sectors in each country group. Policy changes or 'shocks' are applied to the model, with effects determined by the linkages between industries and regions, assumptions about the economic behaviour of firms and households, and resource constraints.

In the modelling, a longer-term perspective is adopted. Under this approach, it is assumed that labour is mobile between regional industries and that it responds to changes in the relative competitiveness of industries. Aggregate labour endowments are assumed fixed (that is, not affected, in the longer run, by tariff policy changes, as such).

It is also assumed that capital stocks by region and industry adjust in order to equilibrate the expected and actual rates of return on capital. Under this assumption, increases in tariffs would be expected to initially reduce average returns to capital, ultimately leading to a lower capital stock and output potential. Capital would also be reallocated between regional industries according to the relative loss in the competitiveness of those activities.

Quantitative modelling is useful in ascertaining the key implications and economic costs of protection, however, it does not capture all of its costs. It is likely that, among other things, protectionist responses would reduce the cooperation and trust necessary to achieve successful multilateral trade reform or reduce the scope of any agreement ultimately reached. Countries may also be less inclined to reduce unilaterally their own barriers, potentially reversing progress in recent unilateral tariff reductions (particularly in the Asia-Pacific region). Protectionist responses would also erode the incentives of producers to innovate and achieve productivity improvements. Higher protection may also encourage some countries to seek preferential trade agreements, which cannot offer the same opportunities for increased trade and economic activity as multilateral liberalisation.

What action can be taken?

So far the risks and consequences of resurgent protectionism have been recognised by most governments, and reflected in various commitments. However, these commitments are not binding and, as noted above, they have not prevented some governments from increasing protection in some areas.

Since January 2009, the WTO has been reporting each quarter on new trade restrictions that its monitoring reveals. Although worthwhile as a means of drawing attention to the extent and potential costs of new protectionist measures, these reports have relied on the voluntary provision of information by WTO members. Forty-one of 153 WTO members, and 14 of the G-20 members, have provided information for the WTO's latest reports.

In its *Trade & Assistance Review 2007-08*, the Commission recommended the strengthening of reporting obligations and other transparency mechanisms. Such mechanisms could be particularly important currently, as many of the recently introduced trade barriers have taken a less transparent form. Indeed, some have noted that the WTO's monitoring has already revealed areas where knowledge of trade policies was previously lacking (Evenett et al. 2009). Enhanced monitoring processes could be used as a basis both to begin a process of unwinding protective measures introduced during the crisis and to progress multilateral reform in new areas.

Making progress in the Doha Round of multilateral trade negotiations would itself help discipline the introduction of new protective measures. For example, the dairy export subsidies introduced in the United States and Europe in 2009 would have been prohibited under existing Doha proposals. Bound and applied tariff rates also would be more closely aligned, further limiting the ability of countries to raise trade

barriers under WTO rules. Overall, it has been estimated that world GDP could be raised significantly by successfully completing the Doha Round (Adler et al. 2009, Anderson and Martin 2006 and Hertel and Keeney 2006). The current economic environment makes it more important than ever that the Australian Government continues to press for its completion.

However, the Doha Round is not expected to cover a number of trade policy areas, including some that have featured recently in response to this crisis. Of particular concern is the proliferation of domestic preferences in government procurement and the scope for future industry protection in the guise of ‘environmental protection’.

- Any trade measures motivated by the objective of reducing carbon emissions should be implemented in ways consistent with the rules-based trading system. In the current circumstances, there is a heightened risk of concerns about climate change being used as a shield to implement protectionist measures under existing WTO rules.
- Since late 2008, at least 15 countries have imposed policies that discriminate against foreign supplies in government procurement processes. In Australia, the New South Wales Government recently introduced procurement guidelines that provide a 20 per cent price preference for locally supplied goods (and an additional 5 per cent preference for goods sourced from regional areas). All other states maintain procurement policies that aim to give a degree of preference to local industries.² Such policies not only risk reducing the value of government spending for taxpayers, but also provide a poor demonstration effect internationally, and are a liability when seeking to encourage other countries to reduce protection.

Financial sector support and regulation

Key policy responses to the financial crisis have been those relating to the financial sector. These have included:

- the provision of substantial support and assistance
- proposals to reform regulations governing financial markets and institutions.

² Generally, where states’ procurement policies give preference to local industry, the granting of preference is in accordance with obligations under Australia’s preferential trading agreements.

Support for financial markets and institutions

The recent government support to financial markets and institutions has helped stabilise markets and prevented a more drastic downturn in economic activity. The IMF recently stated:

Unprecedented policy actions undertaken by central banks and governments worldwide have succeeded in stabilizing the financial condition of banks, reducing funding pressures and counterparty risk concerns, and supporting aggregate demand. (IMF 2009a, p. 1)

Nonetheless, the provision of any form of assistance to particular economic activities can bring costs too. Apart from any budgetary burden of such assistance, government support to the financial sector may influence how financial institutions assess risk and can create potential for ‘moral hazard’.

Financial institutions that receive government guarantees, or other forms of support, can thereby generally attract more funds than competing financial intermediaries. Due to the incentives that are created, those institutions receiving support, and potentially the financial sector as a whole, may take on risks that are not optimal. There will be consequences both within countries (with firms receiving support being advantaged over those that do not) and between countries (financial institutions in countries that do provide support will be advantaged, other things being equal).

To some extent, such effects are already evident. For instance, non-depository financial institutions, which generally have not had access to government guarantees and other forms of support, have found it difficult to compete (Samuel 2009),³ and developing countries have expressed concerns over the influence of government guarantees on global capital flows (WTO 2009c). According to the Bank for International Settlements:

Econometric analysis indicates that the differences between the spreads paid by individual banks reflect to a large extent the characteristics of the sovereign guarantor (such as its rating or the timeliness of payments in case of default of the issuer), whereas bank-specific factors (such as its credit risk) play only a minor role. This finding represents an example of the distortions that may stem from government intervention, because it implies that “weak” banks from “strong” countries may have access to cheaper funding than “strong” banks from “weak” countries. Such a pricing of risk is not what one would expect in a well functioning and efficient market. (BIS 2009, p. 3)

³ In this regard, the IMF (2009b) has commented ‘Smaller nonbank lenders have been particularly hard hit, as they do not have central bank support or low-cost deposit funding to fill the void left by the securitization market shutdown’ (p. 1).

It is difficult, however, to disentangle the effects of government policies from the normal ‘flight to quality’ that is likely to occur in a financial crisis or economic downturn. As the WTO recently commented:

Capital flows to emerging markets may be reversing not only as a response to regulatory actions in home countries, but also as a natural result of risk aversion, global liquidity crunch (deleveraging), and solvency concerns. Thus, even without government pressure to do so, financial institutions are more likely in the current circumstances to re-focus their activities on their core geographical markets at the expense of their non-core operations in other countries. (WTO 2009c, p. 28)

For the above reasons, governments have designed financial support to be temporary. The Australian Government has announced the guarantee of deposits for an interim period of three years, and proposes to remove the wholesale funding guarantee once market conditions ‘normalise’. In addition, the risk-based fees that the Australian Government charges to access the guarantee (for wholesale debt issues or deposits over \$1 million) may lead financial institutions to progressively discontinue their use. Other governments are considering the ‘exit strategies’ required to remove the range of support mechanisms that they have provided.

For a number of reasons, it may prove difficult to withdraw the temporary assistance that has been granted to avert systemic collapse.

- First, the timing of the removal of support will need to balance the achievement of the broad stabilisation objective with the need to avoid undue support to the financial sector.
- Second, government support can in itself build a constituency for it to be maintained. The introduction of support in some countries caused others to respond with their own support schemes (to avoid capital flowing to the countries offering guarantees). Countries that seek to remove support ahead of others may face similar pressures. Ultimately, such opposition may cause assistance to persist, even if its removal would deliver greater (albeit more widely spread) benefits to the community.
- Third, the removal of assistance alone will not necessarily remove the ‘moral hazard’ problem. As assistance was provided when some financial institutions were at risk of commercial failure, the financial sector may expect that similar assistance would be forthcoming to prevent failure in the future. Governments therefore cannot simply ‘take the assistance away’ by formally terminating the temporary measures.

To address these complications, national and international arrangements may be needed to ensure that the removal of assistance does not create its own destabilising effects. Such arrangements should seek to implement best-practice design principles

for the provision of financial sector guarantees (Basel Committee on Banking Supervision 2009 and ANZSFRC 2009), and to ensure that the financial regulatory framework encourages financial institutions to consider all of the commercial risks and costs of their decisions, while recognising systemic risks of financial sector activity.

Reform of financial regulations

The financial crisis has led to calls for strengthened financial market regulations. G-20 leaders have established the Financial Stability Board to develop proposals to reform financial regulations with the aim of delivering greater financial stability, and governments in the United States and Europe have developed detailed proposals for change (US Treasury 2009, de Larosière 2009 and HM Treasury 2009).⁴ In broad terms, the current proposals are intended to enhance monitoring of systemic risks, remove gaps in regulation, impose more stringent prudential and liquidity requirements, better align remuneration practices with commercial outcomes, increase international regulatory coordination (particularly of cross-border institutions) and standardise and improve disclosure for, and regulation of, complex financial products. Some changes have already been made to the Basel II accord (including the treatment of off-balance sheet and securitisation activities). G-20 leaders have agreed on further changes that will be phased in as financial and economic conditions improve, with the aim of implementation by end of 2012.⁵

The proposed changes have two main rationales.

- Some changes are targeted at deficiencies in financial regulations and their administration that were highlighted during the financial crisis. In particular, there are concerns that, in some countries, the financial regulatory framework was not sufficiently responsive to the emergence of systemic risks (as opposed to the prudential soundness of any individual institution). There are additional concerns over the sufficiency of the consumer and investor policy settings in housing and financial markets in some countries.
- Regulatory changes may also be needed to address moral hazard concerns.

⁴ The Financial Stability Board comprises senior representatives of national financial authorities from 24 countries, international financial institutions, standard setting bodies and committees of central bank experts. Australia is represented on the Board by the Reserve Bank of Australia and The Treasury.

⁵ Basel II is the second of the Basel Accords. The accords are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. APRA has adopted the Basel II framework as the standard for the prudential regulation of Australian authorised deposit-taking institutions.

The precise issues and proposed solutions vary across countries but there is broad acceptance of the need for changes to financial regulations.

Financial regulation was not equipped to address the risk concentrations and flawed incentives behind the financial innovation boom ... the task now is to broaden the perimeter of regulation and make it more flexible to cover all systemically relevant institutions. (IMF 2009c, pp. xix-xx)

Nonetheless, there are obvious risks that changes being made to financial regulations may unduly restrict competition, innovation and ultimately the productivity of this key sector. Over the past thirty years, many countries have liberalised their financial regulatory settings and reduced barriers to investment between countries. These reforms increased access to credit for businesses and households, contributed to reduced interest rates and drove higher rates of economic growth (Bekaert et al. 2005; Jayaratne and Strahan 1996). Greater competition in the financial sector also reduced costs and increased the number and type of financial products provided to consumers (PC 2004d). Recent excesses in the degree of complexity introduced into some financial products, and shortcomings in the management of these innovations, should not obscure these substantial benefits.

Regulatory changes that served to inhibit competition and innovation, without yielding cost advantages in terms of increased stability or consumer protection, could put these benefits at risk. Designing the most efficient financial regulatory settings involves balancing the risks and costs of financial instability against the risks and costs of inhibiting productivity.

To illustrate the possible impacts of ‘excessive’ regulation, the Commission has used the GTAP model to estimate the effects of higher costs in the financial services sector across OECD countries under a stylised scenario.⁶ The modelling indicates that for a 1 per cent reduction in financial services productivity combined with a 1 per cent increase in capital costs across OECD economies, global output would be over 0.5 per cent lower than otherwise over the longer run.

While these estimates provide an indication of the potential costs of excessive regulation, they do not directly capture all of these. Beyond providing access to capital in a cost-effective way, a well-functioning and efficient financial sector should also allocate capital to the most profitable firms and exert pressure on those firms to maintain high standards of corporate governance. Some evidence suggests

⁶ The GTAP model is a well-known, multi-region and multi-sectoral general equilibrium model of the world economy. For the purposes of these calculations, the GTAP database has been aggregated into 20 individual national economies and 5 regional groups. There are 57 industry groups in each country or regional group (box 1.3).

that financial deregulation had its greatest beneficial impact on increasing the quality, rather than just the quantity, of lending (Jayaratne and Strahan 1996).

Moreover, the above results are not estimates of any particular regulatory option. Such costs do not imply that well-targeted improvements to financial sector regulations will not deliver net benefits. However, the estimates highlight the importance of clearly identifying the benefits of any proposed regulatory changes, and establishing that they would, in practice, outweigh the likely costs of that change.

Given the relative resilience of Australia's financial sector, there has not been pressure to date for fundamental changes to its regulatory framework. However, it is unlikely that Australia's settings will remain unaffected by the crisis. In addition, in light of the substantial support given to the Australian financial sector, the appropriateness of Australia's pre-crisis regulations may come under review.

As with changes to the regulation of financial markets more broadly, any significant changes to Australian financial sector regulations should only be implemented following a thorough examination of the likely costs and benefits. Some have called for another comprehensive review of Australia's financial regulatory system, along the lines of the earlier Campbell and Wallis inquiries, and the more recent Corporate and Financial Services Regulation Review in 2006 (Gans et al. 2009). The Australian Government agreed, prior to the financial crisis, with the recommendation of the Regulation Taskforce for regular reviews of major regulations every five years (Australian Government 2006). In preference to piecemeal regulatory changes, with their attendant risks and potential for unintended consequences, the Commission would see value in a wider, more encompassing review of financial market regulation.

Securing future economic growth in Australia

A series of reforms over the past 30 years have increased the productivity, competitiveness and flexibility of the Australian economy. Key elements of these reforms removed obstacles to the adjustment of prices in response to market pressures, and restraints on the movement of labour and capital to more productive uses. The consequent greater flexibility of the economy should facilitate the adjustments required in response to the economic downturn and ultimately improve the speed and sustainability of recovery.

Nonetheless, the strength of Australia's economic recovery will also be determined by further economic reforms that influence how productively Australia employs its

economic resources in the future — a theme central to the Commission’s recent submission to the *Inquiry into Raising the Level of Productivity Growth in the Australian Economy* (PC 2009e). In the Commission’s assessment, policies that unduly raise business costs, channel investment into uneconomic projects or introduce rigidities into product, labour or capital markets are likely to crimp recovery and impede future growth.

As in the past, therefore, factors influencing Australia’s future productivity performance will be the key to our prospects for economic growth and higher living standards. Even small changes in productivity growth can have substantial long-term effects. For example, in the latest Commonwealth Budget, the Australian Treasury’s projections assume a long-term labour productivity growth rate of 1.5 per cent (Henry 2009). This compares with an estimate of 1.75 per cent in previous reports — such as the Commission’s report on the ageing population (PC 2005b) and Treasury’s intergenerational reports (Treasury 2002, 2007). If Australia were to achieve the higher rate, GDP would be 3 per cent higher by 2025 than otherwise — an increase of over \$5 000 per household in today’s dollars.⁷

The influence of the financial crisis on policy settings

The financial crisis has not changed the importance of implementing reforms that increase Australia’s productivity and living standards over the longer term. By the same token, the circumstances of the financial crisis have changed the economic environment within which reform takes place. Rebalancing reform priorities in response to this changed environment is necessary, because every reform cannot be progressed at the same pace and time. Attempting too much, can be a recipe for achieving too little.

In particular, the financial crisis and the economic downturn have placed additional emphasis on:

- *Increasing flexibility in capital and labour markets.* Reforms that remove impediments to investment or employment opportunities will facilitate the adjustments that are required in response to the economic downturn.
- *Responding to the challenge of a more fiscally constrained environment.* Achieving future planned reductions in budget deficits will require governments

⁷ Labour productivity growth is the normal variable adjusted in economic projections. However, more important for Australia’s future economic wealth will be changes in multifactor productivity. Multifactor productivity growth accounts for the full costs of additional capital and labour inputs (PC 2009e).

to concentrate more forensically on the appropriateness of existing expenditure, testing its cost-effectiveness and maximising the efficiency of new expenditure.

- *Maintaining vigilant policy evaluation processes.* A policymaking environment in which budgetary pressures are paramount may introduce a bias towards ‘off-budget’ regulation rather than ‘on-budget’ expenditure. Rigorous evaluation and review processes are needed to screen policy proposals for net benefits and weed out costly existing programs.

These considerations point to three key areas for policy attention.

- First, spending associated with various stimulus measures should be targeted at projects that provide the greatest payoffs to the community.
- Second, assistance to specific sectors introduced during the crisis needs to be gradually removed, and other areas of industry assistance reviewed or reformed.
- Third, pushing ahead with a range of targeted productivity-enhancing reforms will facilitate a strong recovery and higher levels of future economic growth.

Getting the most out of stimulus spending

The Australian Government’s stimulus spending has naturally been largely focused on raising aggregate demand and maintaining levels of economic activity in the short-term. The first phase of spending took the form of cash transfers and increased subsidies to first home buyers. Subsequent phases are focusing on investments in schools, communities and home insulation, and ‘nation building’ investments in transport, telecommunications and other infrastructure.

While not involving recurrent expenditure programs, much of this spending will still have long-term economic effects. In particular, most infrastructure investments will remain in place for many years, typically decades. Governments across Australia are currently planning investments in infrastructure amounting to over \$250 billion — equivalent to nearly 1 year’s investment spending for the entire economy.

Projects that are well-selected and well-regulated should more than pay for the financing they require. Indeed, there is the potential for them to assist recovery *and* to improve the long-term performance of the Australian economy. However, infrastructure investments that are not well-allocated can impose a double burden: with future generations having lower incomes than otherwise, while still needing to service the debt incurred in financing such assets.

Given the complexities and uncertainties of efficient project selection, it is important that rigorous processes are used in determining investment priorities. The Government has affirmed that efficient public investment in infrastructure requires the application of detailed cost-benefit analysis and transparency at all stages of the decision-making process, to ensure that the highest economic and social benefits are delivered (Australian Government 2008c). It has committed to apply rigorous evaluation criteria to allocations from the newly established ‘nation building’ investment funds (covering health, education and economic infrastructure). For example, Infrastructure Australia provides advice on the projects that the Building Australia Fund should finance (covering investment in transport, communications, energy and water infrastructure).

These guidelines have not been universally applied to date, however. For instance, funding has been announced for projects that Infrastructure Australia had not evaluated (such as, the O-Bahn track extension in South Australia) or had not assessed as ‘ready to proceed’ (including the Oakajee Port in Western Australia and the Bruce Highway in Queensland). In addition, the decision to build a National Broadband Network, although endorsed by Infrastructure Australia, was not based on detailed cost-benefit analysis. At the Commission’s recent conference on evidence based policy, concerns were expressed about the rigour of some of the cost-benefit analyses that have been undertaken (PC 2010).

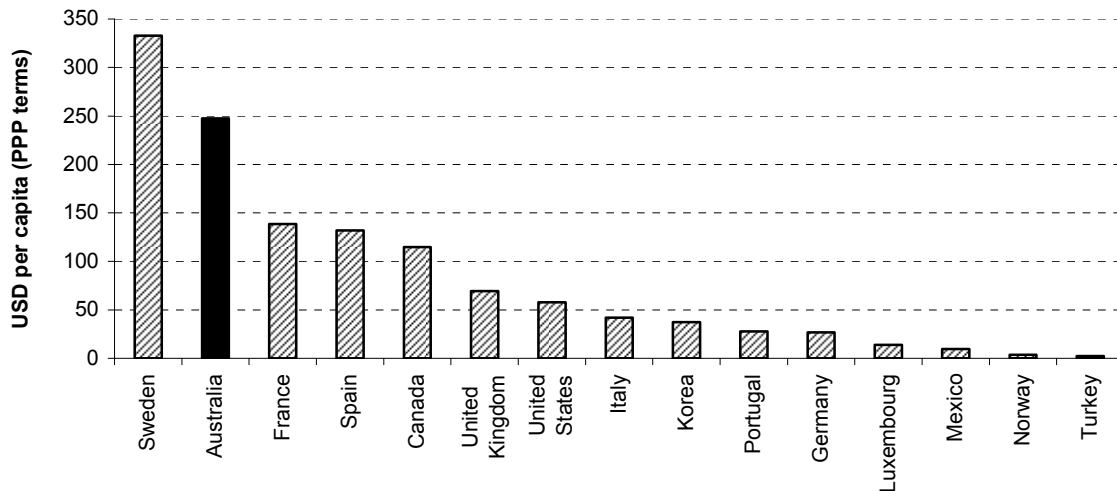
The consistent application of rigorous project evaluation methods remains fundamental to ensuring that investments are the most beneficial. This requires the identification and assessment of feasible investment options, including options to expand, upgrade or refurbish existing assets. At times large-scale, greenfields projects may provide positive returns and have intrinsic merit. However, projects with some of the biggest payoffs can involve addressing bottlenecks in existing networks. Increasing the transparency of project evaluations could play a role in ensuring a balanced assessment of benefits and costs and improving the overall quality of project analysis.

Governments also need to maximise the benefits of engagement with the private sector. Almost all public investments require some involvement with the private sector, from design and construction through to financing tasks. Taking the time to select the best project delivery option, and having the skills to negotiate the most appropriate allocation of risks between the parties, ensures that projects not only offer, but deliver, value for money (PC 2008i; Chan et al. 2009).

Ensuring that assistance to industry delivers net benefits

The policy response to an economic crisis typically involves some government assistance to selected industries. The Australian Government has recently provided additional assistance to the automotive, financial and car-finance sectors. Indeed, the Australian Government's total assistance package for the automotive sector, announced in November 2008, is among the largest of the recently announced programs in per capita terms in OECD countries (figure 1.3). It has also announced increased subsidies for research and development spending and recently agreed to provide support for Australian suppliers to bid for government projects.

Figure 1.3 Recent international assistance to the automotive sector^a
US dollars per capita (PPP terms)



^a The assistance relates to recently announced programs to support domestic automobile sectors in OECD countries through subsidies, tax breaks and special investment schemes (including 'cash for clunkers'). Programs announced after June 2009 are not included.

Sources: OECD (2009k); Daley (2009).

Certain forms of assistance — such as some research and development funding and some measures with environmental objectives — can deliver net community benefits. Other policies with industry assistance implications — such as adjustment assistance — can also be justified on social or equity grounds or, currently, to promote economic stabilisation.

However, costs are always incurred when providing assistance to specific industries. In many cases, these will outweigh the benefits because such assistance diverts scarce economic resources from more efficient firms and industries, ultimately weakening the performance of the wider economy. In addition, more

readily available assistance can divert managerial attention towards seeking such support, rather than improving a firm's productivity or product quality.

It is therefore important that governments monitor and re-evaluate the measures they have put in place in response to the crisis. Some of the support is designed to be temporary in nature. But experience shows that, once granted, assistance can be difficult to remove. Where removing temporary measures proves problematic, independent and public reviews can enable the costs of not doing so to be more widely recognised.

There is also considerable scope to rationalise the industry assistance that predates the crisis. The Commission's latest *Trade & Assistance Review* identified that industry assistance in 2007-08 amounted to over \$17 billion in gross terms, and \$9 billion in net terms (PC 2009d). Although some assistance is well-targeted, and likely to generate net benefits, there is scope for governments to reduce and rationalise some elements.

- The Commission's recent report on drought assistance demonstrated the gains from reform (PC 2009c). In particular, 'exceptional circumstances' interest rate subsidies and state-based transactions subsidies were found to be ineffective and, perversely, encouraged poor management practices.
- In a study of science and innovation policies, the Commission concluded that generic R&D tax concessions mostly benefited the recipients, and failed to generate substantial additional R&D investment (PC 2007a). Current proposals for a tax credit scheme, which on some measures will increase the concession for generic R&D investment, raise concerns over whether enough additional R&D would be induced to justify the increased public cost.⁸
- Australian governments intend to spend over \$23 billion to 2011-12 on programs to reduce carbon emissions (PC 2009d). Some of these measures are directed at specific technologies to reduce emissions, which may not prove to be the most cost-effective. Over \$6 billion is also allocated to assist firms to adjust to the proposed emissions trading scheme. Such assistance requires careful design so that it does not create perverse incentives and shift an undue emission reduction burden onto other, unassisted, parts of the economy, nor encourage high-cost low-emission technologies.
- The Commission's *Trade & Assistance Reviews* have also identified further areas where review is needed, such as defence procurement, assistance to the

⁸ Existing arrangements deliver a 7.5 cents after-tax concession for every dollar spent on research and development. The tax credit would increase this concession to 10 cents for large firms and 15 cents for small firms.

tourism sector and state, territory and local government assistance to industry (PC 2008e).

There are limits on the extent to which much government expenditure can promote productivity growth and the wider performance of the Australian economy. The benefits of past reforms have largely been a consequence of policies that involved little government spending. Rather, they were focused on lowering barriers to competition, removing price distortions and reducing regulatory constraints and burdens. Likewise, much of the future reform agenda is appropriately directed at improving the effectiveness of government spending and removing barriers to higher productivity.

Progressing productivity-enhancing reform

Over recent years, Australian governments have together mapped out an ambitious reform agenda, aimed at boosting productivity, increasing workforce participation and improving the quality of public services (box 1.4). The agenda also seeks to address a number of other important objectives, including affordable housing, overcoming Indigenous disadvantage and environmental sustainability.

The development of this agenda largely predates the crisis, but it remains crucial to Australia's future economic performance. The Commission has estimated that the achievement of identified infrastructure reforms and reductions in regulatory burdens could increase GDP by nearly 2 per cent. Other reforms to enhance workforce participation and increase productivity (through health, education and workforce participation reforms) could deliver even larger gains (PC 2006b). (The latter gains would materialise over a lengthy period, with some requiring significant public investment.)

While reforms with longer-term payoffs remain important in the current fiscally-constrained circumstances, reforms that can achieve early improvements in growth prospects, with little or no fiscal outlays, have obvious attractions. Governments have already made substantial progress in a number of areas and, prior to the economic crisis, the Business Regulation and Competition Working Group prioritised a list of 27 regulatory 'hot spots'. Governments have also established a number of reviews to evaluate reform options, such as the Review of Australian Higher Education (Bradley 2008) and a review of Australia's health system by the NHHRC (2009b).

While the Commission recognises the influence of institutional and other factors that may limit the progress that can be made in certain areas, it sees the following areas as candidates for prioritisation.

Box 1.4 The COAG Reform Agenda at a glance

The COAG Reform Agenda encompasses a broad range of policy reforms, across a number of areas:

- *Business regulation and competition reforms* include measures to create a seamless national economy, particularly through the establishment of national or harmonised regulatory systems. Other areas include implementing previously agreed energy, national transport and other infrastructure reforms, as well as establishing more effective regulatory review and evaluation processes.
- *Health and ageing reforms* focus on improving the quality and access to health services and the effectiveness of the health workforce, as well as policies to prevent disease and illness by addressing levels of obesity, smoking, diabetes, physical activity and healthy eating.
- *Productivity reforms* include measures to improve early childhood development, school and vocational education outcomes, including through improvements in literacy and numeracy and in teacher quality and accountability. Vocational education and training reforms seek to increase skill levels and provide additional training places for job seekers and existing workers.
- *Disability services reforms* include measures to enhance the quality of life for people with a disability and their carers.
- *Climate change and water reforms* include the introduction of a national renewable energy target scheme, streamline associated policies aimed at reducing carbon emissions, the establishment of new governance arrangements for the Murray-Darling Basin and the facilitation of national water markets.
- *Housing reforms* are aimed at improving access to affordable housing, improving access to housing by Indigenous people, enhancing the capacity of the community housing sector and improving housing supply.
- *Indigenous reforms* are intended to close the gap on Indigenous disadvantage, particularly by increasing access to early childhood education, schooling, vocational education and health services and promoting safe communities and improved governance arrangements.

Source: COAG (2008f); Australian Government (2009d).

First, reforms aimed at improving regulations can yield substantial compliance cost savings and improve efficiency at little fiscal cost (and, indeed, in some cases may yield a fiscal payoff). Among regulatory reforms deserving special attention are those directed at:

- achieving nationally uniform occupational health and safety laws
- increasing workforce mobility through mutual recognition, greater harmonisation and rationalisation of trades licences and health workforce registration and accreditation practices

-
- improving the efficiency of environmental and development assessment processes
 - removing unnecessary impediments to investment in the oil and gas industries.

Second, enhancing the incentives for efficient investment under the national access regime will promote private sector investment in infrastructure and help to reduce the demands for government spending in this area. The Australian Government has announced its intention to establish time limits on access decisions, allow binding exemptions from declaration (for at least 20 years) and other reforms to streamline the access pricing process. In its *Review of Price Regulation of Airport Services*, the Commission (PC 2006g) also recommended legislative changes to ensure that the entry bar for declaration can be restored to a level that provides greater certainty to investors and encourages investment.

Third, regulatory review and evaluation processes will continue to have a crucial bearing on the quality of regulation itself. Australian governments have agreed to introduce more effective regulatory gate-keeping mechanisms that would increase the use of cost-benefit analysis, require the cumulative burden of regulation on business to be considered and increase transparency (COAG 2007b). Despite this, not all commitments have been implemented and a detailed timeline has not been agreed. In addition, the Commission's recent *Annual Review of Regulatory Burdens on Business* identified a need for a number of improvements to processes at the Commonwealth level, including increased opportunities for consultation and the creation of a central register of regulation impact statements (PC 2009b).

Many of these reform areas are already 'in the queue', with governments having agreed on the necessity of reform and, in some cases, making significant progress. It should therefore be possible to implement them quickly.

There are other items that have been on the agenda for some time which deserve revisiting. These include restrictions on competition in the pharmacy sector, the regulation of ports, coastal shipping and other transport reforms, and restrictions in the broadcasting sector and the use of radio spectrum. Reforms in these areas may not be achievable immediately, but they have the potential to contribute to Australia's economic potential over the medium-term.

Longer-term reform imperatives

Notwithstanding the potential prioritisation of certain reforms, continuing to make progress on the broader reform agenda for the long term, remains important regardless of the effects of the financial crisis. Health and education constitute almost a third of government spending and 15 per cent of GDP, and are a major influence on the wellbeing of Australians. More cost-effective service provision in

those and other human services offers large potential benefits. In addition, increased educational attainment and better health can also lead to increased workforce productivity and participation. In this regard, the Prime Minister recently announced that the Productivity Commission would be asked to undertake a series of reviews on ways to improve both the efficiency and effectiveness of human service provision (Rudd 2009). Particular attention will be paid to the promotion of productivity and workforce participation. An early review will examine Australia's aged care needs for the next 20 years and advise on appropriate arrangements.

Taking advantage of all opportunities over time is especially important given the size of expenditure in these areas and projected increases associated with an ageing population.

The lessons from earlier reform experiences, notably the National Competition Policy, indicates that reforms under a broad-based program can be complementary and mutually reinforcing. They widen the distribution of benefits and the costs of some reforms can be offset by the benefits delivered by other reforms, easing overall adjustment pressures. Achieving progress across priority reform areas that can yield early benefits will also help the economy grow out of the economic downturn and reduce future fiscal burdens. Higher productivity and incomes also ultimately provide the means of achieving the broader social and environmental objectives of importance to Australians.

2 Review of Commission activities and performance

Some highlights from 2008-09

- published major reports on a range of topics including paid parental leave, government drought support and restrictions on the parallel importation of books
- governments accepted many of the Commission's findings and recommendations, particularly on paid parental leave, the regulatory burdens on business, consumer policy and chemicals and plastics regulation
- hosted a roundtable conference on promoting better environmental outcomes
- announcement in the 2009-10 Commonwealth Budget of three new streams of work for the Commission to assist the COAG reform agenda
- released the 2009 report on Overcoming Indigenous Disadvantage
- delivered the first tranche of reporting on National Agreement performance indicators (education and training) for the COAG Reform Council
- completed a range of supporting research to inform policy development and debate on productivity, aged care, fertility and government trading enterprises

Areas of focus for 2009-10

- completion of current inquiries and government-commissioned research on Australia's gambling industries, the regulation of director and executive remuneration, the contribution of the not-for-profit sector, Australia's anti-dumping system, the performance of public and private hospitals, water recovery in the Murray Darling Basin and wheat export marketing
- continuing assessment of regulatory burdens on business and the inter-jurisdictional benchmarking of business regulation
- data development, modelling and analysis to assist in reporting on the economic impacts and benefits of COAG's agreed reform agenda
- provide ongoing secretariat assistance to the Steering Committee for the Review of Government Service Provision and the Indigenous Expenditure Report Steering Committee, and respond to any changes arising from the review of ROGS
- prepare for new role in assessing industry claims for assistance within the Government's proposed Carbon Pollution Reduction Scheme
- plan for, and further develop, capabilities to meet future work demands on economic, social and environmental issues of national significance

Overview

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Consistent with the objective of raising national productivity and living standards, its remit covers all sectors of the economy. The Commission's work extends to the private and public sectors, including areas of State, Territory and local government, as well as federal responsibility.

The Productivity Commission was formed in 1998 from an amalgamation of the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. Details of its role, functions and policy guidelines were outlined in the Productivity Commission's first annual report (PC 1998a).

The Commission is expected to contribute to well-informed policy making and public understanding on matters related to Australia's productivity and living standards. Its work is based on independent and transparent analysis that takes a community-wide perspective, beyond the interests of particular industries or groups. It often deals with contentious and complex issues where the potential long-term pay-off for the nation from better informed policy making is high.

The outcome objective designated for the Productivity Commission is:

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

The Commission, in pursuing this objective, is active in four broad work streams or categories of outputs:

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

There was again a considerable diversity of topics in the Commission's work program in 2008-09 (box 2.1). This included government commissioned inquiries and studies on the economic aspects of various cultural, social and environmental issues, including paid parental leave, drought support and restrictions on imports of books.

Box 2.1 Commission publications in 2008-09

Public inquiries (draft reports)

Paid Parental Leave Government Drought Support

Public inquiries (final reports)

Paid Parental Leave Government Drought Support

Government-commissioned research studies (draft reports)

Review of Mutual Recognition Schemes Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector

Restrictions on the Parallel Importation of Books Annual Review of Regulatory Burdens on Business – Social and Economic Infrastructure

Performance Benchmarking of Australian Business Regulation – Cost of Business Registrations Performance Benchmarking of Australian Business Regulation – Quantity and Quality

Government-commissioned research studies (final reports)

Chemicals and Plastics Regulation Annual Review of Regulatory Burdens on Business – Manufacturing and Distributive Trades

Review of Mutual Recognition Schemes Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector

Performance Benchmarking of Australian Business Regulation – Cost of Business Registrations Performance Benchmarking of Australian Business Regulation – Quantity and Quality

Restrictions on the Parallel Importation of Books

Performance reporting

Report on Government Services 2009: education, justice, emergency management, health, community services and housing Report on Government Services 2009: Indigenous compendium

National Agreement performance information 2008: National Agreement for Skills and Workforce Development National Agreement performance information 2008: National Education Agreement

Annual report suite of publications

Annual Report 2007-08 Trade & Assistance Review 2007-08

Commission research paper

Financial Performance of Government Trading Enterprises 2004-05 to 2006-07 Trends in Aged Care Services: some implications

Submission

Submission to Infrastructure Australia's National Infrastructure Audit

(continued next page)

Box 2.1 (continued)

Chairman's published speeches

Industry Policy for a Productive Australia Evidence-based policy-making: What is it? How do we get it?

Conference/workshop proceedings

Promoting Better Environmental Outcomes

2008 Richard Snape Lecture

Latin America in the Global Economy: Challenges and Opportunities (Dr Vittorio Corbo)

Staff working papers

Recent Trends in Australian Fertility

Productivity in the Mining Industry: Measurement and Interpretation

Investments in Intangible Assets and Australia's Productivity Growth

Public Infrastructure Financing: An International Perspective

Supplement to research report

Chemicals and Plastics Regulation: Lessons for National Approaches to Regulation

An emphasis on regulatory themes in the Commission's work program continued, with the completion of further stages of the review of regulatory burdens on business and the benchmarking study on business regulation. Reports on chemicals and plastics regulation, the regulatory burden on the upstream petroleum sector and mutual recognition agreements were also completed in the year.

A further continuing feature of the Commission's work program is its involvement in assisting Australia's jurisdictions and COAG through a mix of standing research responsibilities and specific projects. In the current year, for example, standing research activities included cross-jurisdictional reporting on the performance of government services and further reporting on indicators of Indigenous disadvantage. Specific projects undertaken to assist policy development across jurisdictions included the study on chemicals and plastics regulation, undertaken to inform the work of the COAG Ministerial Taskforce on Chemicals and Plastics Regulation, and current work on benchmarking business regulation in the areas of food safety and occupational health and safety to assist the work of the COAG Business Regulation and Competition Working Group. The Commission also provided secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of reporting annual performance information on six National Agreements to the COAG Reform

Council, and provided secretariat, research and report services to the Indigenous Expenditure Steering Committee reporting in respect of the annual report on expenditure on services to Indigenous Australians.

The diversity of topics in the Commission's work program appears set to continue into 2009-10 and beyond. For example, current work to be completed by the Commission by early 2010 includes inquiries and studies on Australia's gambling industries, the regulation of director and executive remuneration, anti-dumping, the contribution of the not-for-profit sector, the performance of public and private hospital systems, market mechanisms for recovering water in the Murray-Darling Basin and wheat export marketing. In August 2009, the Prime Minister also announced that the Commission would be undertaking a series of projects spanning the life cycle of human services, commencing with an inquiry into aged care (Rudd 2009).

Year in review

The Productivity Commission's role in informing public policy development and community understanding on key issues influencing Australia's productivity and living standards is pursued through four major outputs. The principal developments in these activities during 2008-09 are outlined below.

Public inquiries and other commissioned studies

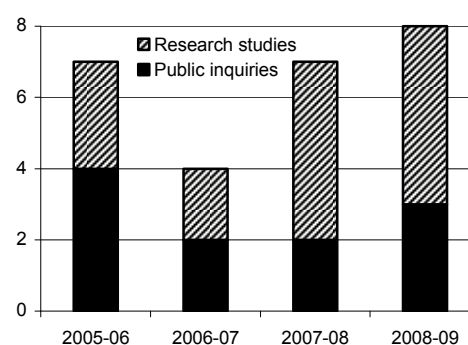
The Commission had 5 public inquiries and 10 commissioned research studies underway at some time during 2008-09. In addition to completing 7 references from the previous year, it received 8 new projects, maintaining the breadth of policy coverage evident in recent years (figure 2.1).

The Commission completed two inquiries commenced in the previous financial year: on government drought support and paid parental leave.

Three new inquiries commenced in 2008-09.

- The inquiry into Australia's gambling industries commenced in November 2008 following an earlier request by COAG. The inquiry is to provide an update of the Commission's 1999 gambling report across a range of gambling related issues. It

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



will also provide additional research into the impacts of recent harm minimisation measures.

- An inquiry into the regulation of director and executive remuneration in Australia commenced in March 2009. In conducting the inquiry, the Commission has been asked to consider a range of issues, including trends in director and executive remuneration in Australia and internationally, the effectiveness of the existing framework for regulating executive remuneration and the role of large institutional investors in current remuneration practices. A draft report was released in September 2009 and a final report is due by the end of December 2009.
- The Commission's inquiry into Australia's anti-dumping and countervailing system commenced in March 2009. It will assess the policy rationale for, and objectives of, Australia's anti-dumping system, and assess the effectiveness of the current system in achieving those objectives. It is also to make recommendations on the appropriate future role of an anti-dumping system within the Government's overall policy framework.

During 2008-09 the Commission finalised five government-commissioned research studies commenced in the previous year:

- a study of chemicals and plastics regulation that commenced in August 2007, and was released in final form in July 2008
- the second stages of the review of regulatory burdens on business, completed in August 2008, and the benchmarking study on business regulation, completed in November 2008
- a review of the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA) that was requested by COAG in March 2008, and which provided its final report to government in February 2009
- a study on Australia's framework for upstream petroleum regulation that was also announced by COAG in March 2008 and which reported to government in April 2009.

It also received a request for, and completed a research study on, the restrictions on the parallel importation of books into Australia.

The Commission commenced a further four new research studies during the year which are ongoing: further stages of its regulation benchmarking and regulatory burdens studies; a study of the Contribution of the Not-for-Profit sector; and a study on the performance of public and private hospitals.

Further information on public inquiries and commissioned research studies undertaken by the Commission during 2008-09 and government responses to reports is provided in appendices B and C.

Performance reporting and other services to government bodies

The Commission has provided the Secretariat to the Steering Committee for the Review of Government Service Provision since 1993. The collaborative efforts of more than 80 Commonwealth, State and Territory government agencies contribute to the Steering Committee's three major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage report; and reporting on National Agreement performance indicators to the COAG Reform Council. In addition, the Secretariat is represented (as a member or observer) on many national advisory groups developing priorities and strategies for improved reporting, as well as providing expert advice to data collectors and users on concepts, definitions and classifications.

Report on Government Services

The *Report on Government Services 2009* was the fourteenth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning education, health, justice, community services, emergency management and housing. The services covered in the 2009 Report collectively account for approximately \$132 billion of government recurrent expenditure, equivalent to 12.8 per cent of gross domestic product. A separate *Indigenous Compendium* was also published, providing an easily accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review strives for continuous improvement. The 2009 Report included new indicators for children's services, primary and community health, health management issues, and emergency management, and improved reporting on aspects of school education, vocational education and training, police services, corrective services, aged care services, services for people with a disability, protection and support services and housing.

In November 2008, COAG agreed to a review of the Report on Government Services. The review, to be conducted by a working group of Heads of Treasuries and Senior Officials, is aimed at ensuring that the report remains relevant and useful, and complements the new performance reporting arrangements under the

Intergovernmental Agreement on Federal Financial Relations. The review is scheduled to be completed by the end of 2009.

Overcoming Indigenous Disadvantage: Key Indicators

The *Overcoming Indigenous Disadvantage: Key Indicators* series of reports was commissioned by COAG in April 2002, as part of COAG's reconciliation commitment. COAG set two core objectives for this reporting:

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

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

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

The most recent edition was released in conjunction with a COAG meeting in Darwin with a focus on Indigenous policy. It showed that many Indigenous people have shared in Australia's recent economic prosperity, with increases in employment, incomes and home ownership. There have also been improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

National Agreement reporting

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

in each National Agreement will be monitored and assessed by the COAG Reform Council (CRC).

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

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

- by end-June on the education and training sector, commencing with performance information for 2008
- by end-December on the health, housing, disability and Indigenous reform sectors, commencing with performance information for 2008-09.

The first tranche of reporting, delivered to the COAG Reform Council on 30 June 2009, included:

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

The second tranche of reports from the Steering Committee to the CRC is required by end-December 2009.

Indigenous Expenditure report

The Productivity Commission also provides (separate) Secretariat services for the Indigenous Expenditure Report Steering Committee. In 2007, COAG agreed to the reporting of Indigenous expenditure, and the Steering Committee to take this forward was established in May 2008. The Productivity Commission assumed Secretariat responsibilities from November 2008. A Stocktake Report, including terms of reference for the report and a high level overview of the intended methodology and future development process, was endorsed by COAG in July 2009.

An annual report will present government expenditure on Indigenous-related programs and services. This information will be mapped to the Overcoming Indigenous Disadvantage framework, and will help inform policy decisions, facilitate high level analysis of program effectiveness, and provide the Commonwealth Grants Commission with more reliable estimates for use in funding allocations. The inaugural data report is planned to be released in mid-2010.

Other performance reporting

The Commission's performance reporting activities also include a program of research on the performance of Australia's economic infrastructure industries and the impact of related microeconomic reforms.

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

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

A contributor to this outcome is that, contrary to stated policy objectives, not all governments have identified and funded all CSOs. Inadequate funding of CSOs affects a GTE's financial performance and can result in inadequate or misallocated

investment, price increases for non-CSO services, and/or lower quality service provision.

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

Further information on performance reporting activities in 2008-09 is provided in appendix B.

Competitive neutrality complaints activities

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

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) is staffed on a needs basis and operates as a separate unit within the Commission. Its function is to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received no written complaints in 2008-09 and completed no investigations.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2008-09, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

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

Supporting research activities and annual reporting

The Commission is required under its Act to undertake research to complement its other activities. It must also report annually on these matters, including on the effects of assistance and regulation, and has a wider information role in promoting public understanding of the trade-offs involved in different policy approaches, and how productivity and the living standards of Australians can be enhanced.

The development of themes and projects for the Commission's program of supporting research is guided by government statements on policy priorities, including potential commissioned work; parliamentary debate and committee work;

and wide ranging consultations with Australian Government departments, business, community and environmental groups, union bodies and academics.

In 2008-09 the Commission's supporting research program continued to emphasise the sustainability of productivity improvements, including environmental and social aspects. This included work on productivity and its determinants; labour markets; and the development of economic models and frameworks.

The Commission's published research during the year (box 2.1) included Commission staff working papers on a number of productivity-related topics, including productivity in the mining industry and the effects on productivity of investment in intangible assets. Commission and staff working papers were also published on aged care services, trends in fertility, public infrastructure financing and the financial performance of government trading enterprises. Several papers were also published connected to the Commission's statutory annual reporting requirements.

Further information on the Commission's supporting research activities and publications in 2008-09 is provided in appendix D. This also details the 61 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research and performance reporting work (table D.1). The Commission briefed 25 international delegations and visitors during 2008-09, with a focus on the Commission's role and activities and related policy issues, particularly regulation (table D.2).

Transparency and public consultation

A central feature of the Commission is its open, consultative processes and the scope they provide for people to participate in and scrutinise its work. These processes are integral to its operation. They ensure that the Commission's research and policy advice draw on public input and are tested publicly, and are therefore more robust.

Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. An indication of the extent of consultation undertaken by the Commission is that during the course of its public inquiry activities in 2008-09, it met with more than 200 organisations or groups; held 17 days of public hearings; and received more than 740 submissions from participants.

The Commission has adapted its processes to suit the variety of research studies commissioned by the Government. These studies require less formal public interaction than inquiries, but the Commission nevertheless provides opportunities for participants or experts to comment on its analytic frameworks and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 970 submissions to these studies in 2008-09, with many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

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

Enhancing its own research capabilities

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

For example, in order to help refine and improve proposed approaches and to narrow areas of contention in its research study on Mutual Recognition Schemes, the Commission:

- convened a total of six stakeholder roundtables in both Australia and New Zealand. This included two roundtables at the early stages of the study to publicise the review and canvass issues of interest with stakeholders. The Commission also held a further set of roundtables in both Canberra and Wellington following the release of the draft report to obtain feedback on draft proposals
- conducted presentations and discussions on the scope and aims of the review to a range of government officials, including to members of the Cross Jurisdictional Review Forum
- visited a total of 59 organisations located in Australia and New Zealand with an interest in the study.

In its staff working paper on Productivity in the Mining Industry, the Commission drew on the expertise of internal and external referees, including referees from the Reserve Bank of Australia, the Australian Bureau of Agricultural and Resource Economics and Monash University. Meetings were also held with key stakeholders, including the Minerals Council of Australia and the Australian Petroleum Producers and Exporters Association, to discuss key issues and refine the proposed approach.

Box 2.2 Participative and transparent processes: two examples

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

In its inquiry on *Government Drought Support* the Commission:

- conducted initial meetings with a range of key bodies prior to the release of an Issues Paper, including the Australian Treasury, Australian Bureau of Agricultural and Resource Economics, the Department of Agriculture, Fisheries and Forestry, the National Farmers Federation, the New South Wales Farmers Association, and the Victorian Department of Primary Industries
- placed advertisements in the national press and local rural press and sent circulars to a wide range of individuals and organisations thought to have an interest in the inquiry, including over 370 individuals and organisations who had registered a direct interest in the inquiry
- conducted 82 meetings and 24 roundtables, in 31 towns and cities across Australia, prior to releasing its draft report. These fora were attended by a range of individuals and organisations who were provided with an opportunity to impart their views
- received more than 180 submissions from a wide range of interested parties across the course of the inquiry, with over 80 of these received in response to the Draft Report
- visited a total of 80 organisations over the course of the inquiry, including Australian, State and Territory government agencies involved in various aspects of drought policy
- released a Draft Report and widely distributed pamphlet which summarised the key points and recommendations in an easily accessible format
- held 8 days of public hearings across 7 states and territories following the release of the Draft Report, with evidence provided by 38 organisations or individuals.

In its inquiry on *Paid Parental Leave*, the Commission:

- placed advertisements in national and metropolitan newspapers following receipt of its reference and sent a circular to a wide range of individuals and organisations inviting participation in the inquiry
- received a total of 416 public submissions over the course of the inquiry, 163 of which were received after the release of the draft report
- received several hundred (mainly unsigned) emails that expressed opinions on paid parental leave and in some cases advised of their personal experiences
- consulted with around 40 interested parties in Australia to obtain an overview of the key issues
- visited New Zealand to discuss the operation of that country's paid parental leave scheme
- held 16 public hearings across 7 capital cities, with 6 of these occurring following the release of its draft report.

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

- In August 2008 the Commission held a Roundtable on Promoting Better Environmental Outcomes. Participants included government officials, academics, consultants, journalists and representatives of environmental organisations and agencies. Keynote addresses were presented by Professor Gary Libecap from the University of California and Professor Robert Stavins from Harvard University. The roundtable considered the conditions under which governments can improve environmental outcomes, and how governments should intervene to ensure effective and efficient results. Papers were initially made available on the Commission's website and the proceedings were subsequently published.
- Preparations were also made in 2008-09 for the Commission's Roundtable on Strengthening Evidence-Based Policy in the Australian Federation, held in August 2009. Invitees to the roundtable included international as well as local experts, together with senior officials, policy analysts and commentators.

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

The Commission's Visiting Researcher Program seeks to attract established researchers with an outstanding research record in areas related to its priority research themes and activities. Visiting Researchers contribute to both the work and intellectual life of the Commission. In 2008-09 Dr Mark Harrison (formerly of the Australian National University and an independent economic consultant) continued as a Visiting Researcher. Dr Lixin Cai (Melbourne Institute of Applied Economic and Social Research) also joined the Commission as a Visiting Researcher during the year.

Research collaboration

The Commission continued to participate in collaborative research projects with academic institutions in 2008-09. The projects involved:

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) to develop models to strengthen the analytical framework for policy review and development
 - a broadly-based health sector model, to enable policy makers to assess the distributional consequences of a variety of health policy changes (other

partner organisations comprise the NSW Health Department, the Health Insurance Commission, the ABS and the AIHW)

- a dynamic population microsimulation model, with the capacity to track the future distributional and revenue consequences of changes in tax and outlay programs and thereby aid policy development in the context of Australia's population ageing challenge (other partner organisations include Centrelink, the ABS and ten Australian Government departments)
- the Australian National University on setting priorities for services trade reform, involving new empirical estimates of barriers to services trade and expanding cross-sectional datasets on regulatory barriers to trade that can be applied in the analysis of the potential benefits of reform and to trade policy negotiations
- the University of New South Wales and the University of Columbia (Vancouver) on tackling the tough problems in productivity measurement in infrastructure, services and research and development (other partner organisations were the ABS and the Reserve Bank of Australia).

The Commission is also a member of the Global Trade Analysis Project (GTAP) Consortium based at Purdue University in the United States. Membership gives the Commission early access to database updates needed in its research, as well as priority access to model training and input to the future direction of model and database development. The Commission sits on the GTAP advisory board, providing direction to the Project along with 24 other international institutions.

Research networks and linkages

The Commission has linkages, domestically and internationally, to research and other organisations through the involvement of Commissioners and staff in research alliances and participation in working groups and forums. For example:

- The Commission's Chairman, Gary Banks, is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University, as well as on the Advisory Board of the Economics Department at Monash University. He is on the judging panel for the BHP Billiton/Reconciliation Australia 'Indigenous Governance Awards'. In 2008, he was made a National Fellow of the Institute of Public Administration Australia (IPAA).
- Other Commissioners are also members of various advisory boards and committees, including university and non-profit organisations. For example, Deputy Chairman Mike Woods has been the Commission's principal contributor

to the China Australia Governance Program (CAGP) and chaired the Fiscal Reform Implementation Planning Committee. Robert Fitzgerald serves on a number of university advisory boards, including the Queensland University of Technology's Centre for Philanthropy and Nonprofit Studies Advisory Board, and the Australian Catholic University Community Engagement Advisory Committee. Dr Wendy Craik serves on the Boards of the WorldFish Center, the Foundation for Rural and Regional Renewal and Dairy Australia. Dr Neil Byron serves on the Editorial Boards of the International Journal of Agricultural Resources, Governance and Ecology, International Forestry Review (Oxford), the Journal of Forest Economics (published in Sweden), Forests, Trees and Livelihoods (published in Scotland). In 2005 he was appointed to the World Commission on Protected Areas of the IUCN (World Conservation Union). Louise Sylvan is Deputy President of the Council of the Medical Foundation of the University of Sydney, and also serves on the Board of the Diplomacy Training Program established by The Hon Jose Ramos Horta. Philip Weickhardt is currently Chairman of Earthwatch Institute, a not for profit organisation which contributes to scientific research on environmental issues, and Pilotlight Australia, a small not for profit organisation doing work in the area of Corporate Social Responsibility. He is also on an advisory Board for Anglo American in Australia, is a director of the Molecular Plant Breeding Cooperative Research Centre, and does some teaching for Melbourne Business School in the Executive Education area.

- Members of the Secretariat for the Review of Government Services are observers or members of various national and intergovernmental advisory groups developing priorities and strategies for improved reporting. It also provides expert advice to data collectors and users on concepts, definitions and classifications. Following the formation of new high level COAG working groups and the adoption by COAG of major reform agendas, the Secretariat has been invited by several COAG working groups and sub-groups to advise on performance and outcome reporting for government services and for Indigenous people.
- The Commission is part of a research consortium, comprising the US National Bureau of Economic Research and several Asian research institutes, which arranges the annual East Asian Seminar on Economics. The 20th East Asian Seminar on Economics was held in Hong Kong in June 2009. Commission research on productivity and the trade and investment effects of preferential trading arrangements has featured in previous seminars.
- The Commission's Chairman and senior staff have also participated in the East Asian Bureau of Economics Research's 'Public Sector Linkages Project'. This project, involving representatives from leading policy research institutes

throughout East Asia, held a series of international meetings concerned with the development of better institutional foundations for structural reform in countries in the region.

- Staff members are also involved in a range of research networking activities. Assistant Commissioner Patrick Jomini was a visiting researcher at the Groupe d'Economie Mondiale (GEM), Sciences Po, Paris, in 2009. Other members of staff served on bodies such as the ABS Productivity Measurement Reference Group, the ABS Analytical Reference Group and the OECD Working Party on Industry Analysis.

Informing and communicating via the internet

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries, and community access to its research outputs. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby enhancing opportunities for public scrutiny of the views and analysis being put to it. Transcripts of public hearings, draft reports and position papers, inquiry circulars and final inquiry reports (when released by the Government) are also all posted on the website.

The Commission's website provides ready access to its other outputs — research publications, Commission submissions to other review bodies, key speeches by the Chairman, competitive neutrality complaints reports, benchmarking studies and reports arising from its secretariat work for the Review of Government Service Provision. The website facilitates on-line registration of people's interest in participating in individual inquiries and studies and in receiving updates on more general developments. An email alert service currently notifies more than 1500 recipients of significant events including report releases and the commencement and completion of inquiries. Additional email alerts are also sent to Commonwealth parliamentarians, the media, government departments and contacts in the States and Territories.

In the 12 months to June 2009 there were more than 173 000 external requests for the index pages of inquiries and commissioned research studies current in 2008-09. The projects of most interest were the inquiries on paid parental leave (37 770 requests) and gambling (21 110 requests), and the research studies on the parallel importation of books (25 000 requests) and the contribution of the not for profit sector (17 000 requests). Other heavily accessed web pages were for the 2008 and 2009 Reports on Government Services (26 130 and 32 760 requests, respectively) and the 2007 Overcoming Indigenous Disadvantage Report (21 000 requests). Speeches by the Commission's Chairman attracted more than 47 000 requests.

Even after an inquiry or project is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 1999 inquiry on Australia's gambling industries and the 2005 study of the economic implications of an ageing Australia were each requested over 9 500 times.

The Commission's website received nearly 18 million file requests from external users in 2008-09, a 50 per cent increase on activity in the previous financial year (figure 2.2).

Feedback on the Commission's work

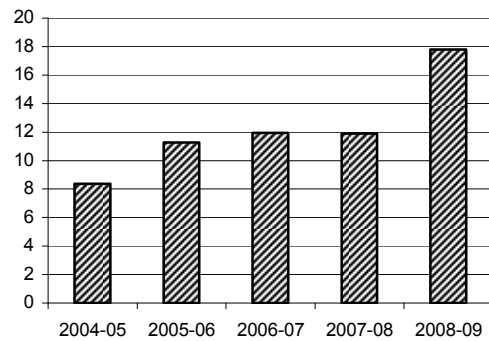
The Commission actively monitors reaction to, and seeks feedback on, its work in order to improve its performance and its contribution to public understanding and policy making. The results of past surveys were reported in previous annual reports and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises and the quality and usefulness of its supporting research program. The

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

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

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

Figure 2.2 Website hits
Million



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

The Commission systematically offers recipients of its reports and users of its website the opportunity to provide feedback. The Commission's website has provision for sending comments via email and an on-line survey form and the Commission provides a publication feedback card in reports for mailing comments.

The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and the conduct of hearings. The number of participants providing feedback through these mechanisms nevertheless remains low: less than 50 respondents in total in 2008-09. Most of the feedback was positive. Feedback is in turn forwarded to authors, inquiry teams and management for consideration and action, where required.

Policy and wider impacts

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

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

Assessment of the Commission's performance is complicated by it being one contributor among many to any policy outcome. Even when its specific recommendations are not supported by government, the Commission can play a significant role in helping governments, parliaments and the community understand the trade-offs in different policy choices. Furthermore, as the Commission's public inquiry and research outputs contribute to public debate and policy development across a range of complex and often contentious issues, its contribution is best considered over the medium term. (These and other considerations in assessing the Commission's overall performance and across each of its four output groups are discussed in appendix B.)

Box 2.3 Support for Commission activities: some recent examples

In discussing the Commission's paid parental leave report on 24 February 2009, the Prime Minister stated:

... what we said was we would look at the Productivity Commission report – it's due soon - and that we'd consider it in the budget context. That is the right way to do public policy. (Rudd and Gillard 2009)

In August 2008, the then Minister for Small Business, Independent Contractors and the Service Economy, Craig Emerson, said that:

The Productivity Commission has a distinguished record in providing impartial, economically rigorous advice and continues to make an indispensable contribution to Australian public policy debate. (Emerson 2008)

During the year COAG requested that the Commission undertake several new inquiries and studies to assist it with its work. These included reviews of Australia's anti-dumping system, the parallel import restrictions on books and Australia's gambling industries. Additional funding was also announced in the 2009-10 Budget for the Commission's role in implementing the COAG Federal Financial Framework.

The Opposition also proposed a number of tasks for the Commission during the year, including that it be asked to inquire into the design and efficacy of the Carbon Pollution Reduction Scheme; conduct a review of the effectiveness and efficiency of the Government's deposit guarantee measures; and undertake a broad-ranging inquiry into Australia's broadband market.

A range of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews of the competitiveness of key markets; the funding of health care; the *Trade Practices Act 1974*; private health insurance; the viability of various forms of national feed-in electricity tariffs; the design of tender processes for job services; the current broadband network and possible improvements; the cost of diabetes to the health system and the wider community; the level and determinants of remuneration for school teachers; the real economic costs of policing the use of illicit drugs; and the effects of award modernisation on job creation and employment.

The final report of the Mortimer review of export policies and programs, delivered in September 2008, endorsed 'the contribution of the Productivity Commission in providing rigorous analysis across a wide range of economic, social and environmental matters.' (Mortimer 2008, p. 65)

A report on international institutions and policy transparency, prepared for the Rural Industries Research and Development Corporation in July 2008, found that:

Australia, through its Productivity Commission, is the standout example of good policy transparency. The Commission is independent and has a reputation for producing high quality credible reports. (Stoeckel and Fisher 2008, p. xiii)

In May 2009, the OECD stated that the Commission 'is viewed as an authoritative non-partisan well-resourced body. Its recommendations carry weight with all Australian governments and all sides of politics.' (OECD 2009b, p. 51)

Details are provided in appendix B.

Notwithstanding the difficulties inherent in measures of performance assessment, the influence of the Commission's work is reflected in a range of indicators, including government policy decisions that draw on its analysis and recommendations, and the use of Commission work in policy debate by Federal and State parliamentarians, government agencies, other review bodies, business and community groups and the media.

Influence on government policy-making

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

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

- In response to the Commission's report on *Paid Parental Leave*, the Australian Government announced its intention to introduce a Paid Parental Leave scheme as part of the 2009-10 Budget. The scheme being introduced is based on that proposed in the Commission's final inquiry report.
- In its response to the Commission's *Annual Review of Regulatory Burdens on Business in the Primary Sector*, the Government accepted or provided in-principle acceptance to most of the recommendations in the report. Of the 61 Commission recommendations, the Government accepted 36 recommendations and provided in principle acceptance to a further 13 recommendations.
- The Government also accepted or expressed in-principle agreement to a large majority of the Commission's recommendations in its *Annual Review of Regulatory Burdens on Business in the Manufacturing Sector and the Distributive Trades*. The Government accepted recommendations across a range of areas, including pricing processes in the Pharmaceutical Benefits Scheme, the Health Technology Assessment System for medical devices and technologies, the Water Efficiency Labelling and Standards (WELS) Scheme, and requirements for energy labelling and minimum energy performance standards.

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

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

- Across 2008-09 COAG continued to progress the establishment of a new national consumer policy objective and national consumer law in line with

recommendations made by the Commission in its *Review of Australia's Consumer Policy Framework*.

- At its meeting of October 2008, COAG welcomed the Commission's final report on *Chemicals and Plastics Regulation* and announced its intention to implement a series of reforms which provide broad endorsement of the reform blueprint proposed by the Commission. Subsequently, at its meeting on 29 November 2008, COAG agreed to a new governance structure to oversee chemicals and plastics regulatory reform as proposed in the Commission's report, including the establishment of a COAG Standing Committee on Chemicals (COAG 2008d). At the same meeting COAG also agreed to an interim response to the recommendations in the Commission's report (COAG 2008e). Of the 30 recommendations responded to, COAG welcomed or supported 20 and noted progress on the remaining recommendations. The supported recommendations covered chemicals and plastics regulatory reform in a range of areas, including national policy formulation and governance, national hazard and risk assessment, public health, occupational health and safety, transport safety, agricultural and veterinary chemical products, environment protection and national security.
- COAG also continued to put in place significant reforms in relation to the health workforce that implement recommendations made by the Commission in its 2005 report *Australia's Health Workforce*. In particular, it agreed to the establishment of a single national scheme for the registration and accreditation of health professionals by 1 July 2010.

Governments need not accept the Commission's advice, and sometimes do not (at least initially). That said, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments have typically adopted a substantial majority of the Commission's recommendations and generally endorsed its findings (details are provided in appendix B and table B.7). Further, an assessment of the nature and extent of references made to Commission inquiry reports suggests that those reports have contributed to policy debates in Federal, State and Territory Parliaments, as well as within the media and general community (appendix B).

The usefulness and influence of the Commission's work can extend over several years. Examples from the past year include continuing use of the Commission's 2005 report on *Australia's Health Workforce* in Federal and State parliamentary debate; by the Department of Health and Ageing (Legg 2008); by the Australian Institute of Health and Welfare (AIHW 2008); by the Parliamentary Library in research papers and bills digests (table B.2); and by academics (Dragon 2008; Gilling 2008; Stride 2008) and the media. Other examples in 2008-09 include continuing use of the Commission's reports on disability discrimination (2004), rail

reform (1999), aged care (1999), private health insurance (1997) and employment services (2002) in parliamentary and wider community debate (box B.2).

Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2008-09 sittings of the *Federal Parliament*:

- 84 Members and 30 Senators referred to 38 different Commission reports or inquiries, or to the Commission's role in policy processes
- in around three-quarters of the 198 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 3 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on the *Disability Discrimination Act 1992*, aged care trends, paid parental leave and the role of policies to supplement an emissions trading scheme.

In addition, there were 188 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2008-09. The Commission was mentioned in the proceedings of 20 different committees, most prominently in proceedings of the Senate Standing Committee on Community Affairs; the Senate Standing Committee on Economics; the Senate Standing Committee on Environment, Communications and the Arts; the Senate Standing Committee on Rural and Regional Affairs and Transport; and the House of Representatives Standing Committee on Employment and Workplace Relations. The most frequent mentions were to the reports on paid parental leave, waste management, the *Disability Discrimination Act 1992* and aged care trends.

Seventeen parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The 27 recent parliamentary committee reports listed in table B.1 referred to 22 different Commission outputs.

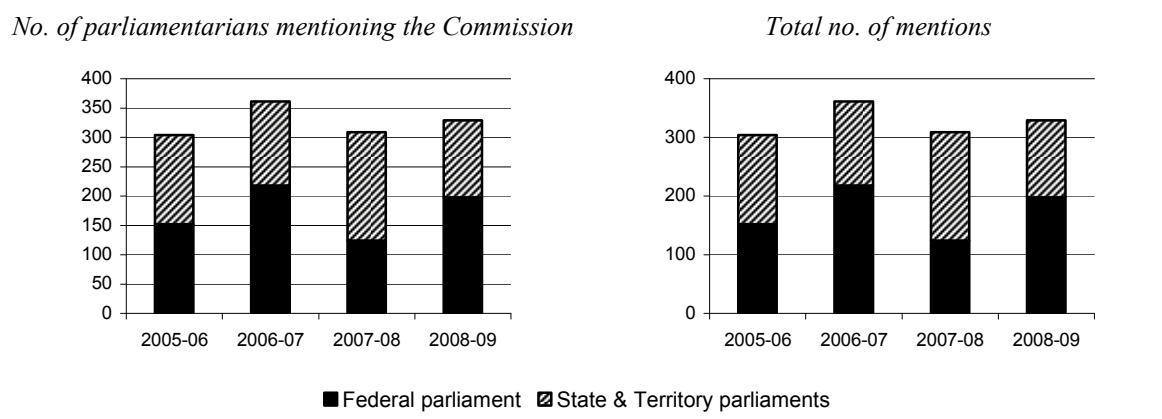
Some twenty Parliamentary Library reports in 2008-09 referred to Commission inquiry and research reports, or to reports on government services (table B.2). This included the use of Commission outputs to inform discussion of legislation in such key areas as land transport, broadcasting, trade practices, aged care, disability discrimination, health workforce reform and renewable energy. Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *State and Territory parliamentarians*. During the 2008-09 sittings of the eight State and Territory parliaments:

- 106 members referred to 24 different Commission publications or inquiries, the Report on Government Services, or to the Commission’s role in policy processes
- in 84 per cent of the 131 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with only 3 per cent of mentions that were critical of the particular finding, report or Commission attribute referred to
- around 40 per cent of mentions were to the Report on Government Services, with the Commission’s reports on consumer policy, the health workforce, the National Reform Agenda and paid parental leave also featuring prominently.

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

Figure 2.3 Mentions of the Commission in Australian parliaments, 2005-06 to 2008-09



Other indicators of policy impact

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

- use of Commission analysis during the year by the Prime Minister, Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers, the Henry Review of taxation, the Garnaut Climate Change Review, and the Australian Securities and Investments Commission, including use of Commission reports on paid parental leave, gambling, the economic implications of an ageing Australia, consumer policy, urban water, structural change and structural adjustment

-
- use of recommendations from the Commission's 2001 *Review of the National Access Regime* by the Australian Government when designing a package of reforms to the Regime (Bowen 2009)
 - the introduction by the Australian Government of the *Disability Discrimination and Other Human Rights Legislation Amendment Bill 2008* which implemented recommendations made by the Commission in its 2004 review of the *Disability Discrimination Act 1992*
 - the widespread use being made of the Report on Government Services by central and line government agencies, State Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
 - the use made by the Commonwealth Treasury, COAG, State Governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW, the National Health and Hospitals Reform Commission and others of a diverse range of Commission supporting research outputs, in particular its work on productivity analysis, health and aged care, emissions trading, climate change and rural and urban water use
 - use of Commission outputs by key international agencies, including the OECD and the IMF.

One continuing indicator of the degree of interest in the Commission's inquiry and other work is the many invitations to give briefings and present papers to parliamentary, business and community groups and to conferences (table D.1). As part of a rolling program of briefings for State and Territory governments on the Commission's work, presentations and visits were made to Queensland, New South Wales and Victoria, and visits to other jurisdictions are scheduled throughout 2009-10. The Commission also responded to requests for briefings to visiting officials and delegations from Korea, Vietnam, Mexico, the Philippines, China, Iraq, the United Kingdom, Canada, Singapore, New Zealand, Chile, Bhutan, APEC, the OECD and IMF (table D.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2008-09, 56 editorials in ten major metropolitan newspapers drew on the findings or recommendations in 12 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's report on paid parental leave accounted for around one-half of all mentions. However, editorials also drew on the analysis in a range of other inquiry and research reports (including those on government drought support, restrictions on the parallel importation of books, urban water, government services and Indigenous disadvantage) or referred to the Commission's role in contributing to policy development. The Commission rated an average of 326 mentions a month in electronic media and an average of 205 mentions a month

in print media in 2008-09. The Commission's inquiries into paid parental leave, government drought support and executive remuneration received the most coverage. Indicators of the influence of Commission outputs during the year — its inquiry, performance reporting, competitive neutrality work and supporting research — are discussed more fully in appendix B.

Associated reporting

Management and accountability information for 2008-09 is reported in appendix A. The audited financial statements for the Commission are contained in appendix F.

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

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

- *Trade & Assistance Review 2008-09*, which reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.

APPENDICES

A Management and accountability

This appendix provides information on the management and accountability of the Commission, as well as additional information in accordance with parliamentary requirements for departmental annual reports.

Overview

Role and structure

The Commission — established under the *Productivity Commission Act 1998* — is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Information about the Commission's objectives is contained in the overview to chapter 2. Further information on the Commission's role is available on its website and in its first annual report (PC 1998a, pp. 25–36).

The Commission comprises its Chairman and between four and 11 other Commissioners, appointed by the Governor-General for periods of up to five years. Associate Commissioners can be appointed by the Assistant Treasurer for terms of up to five years or for the duration of specific inquiries. The work of the Commission is assisted by employees who are employed under the *Public Service Act 1999*.

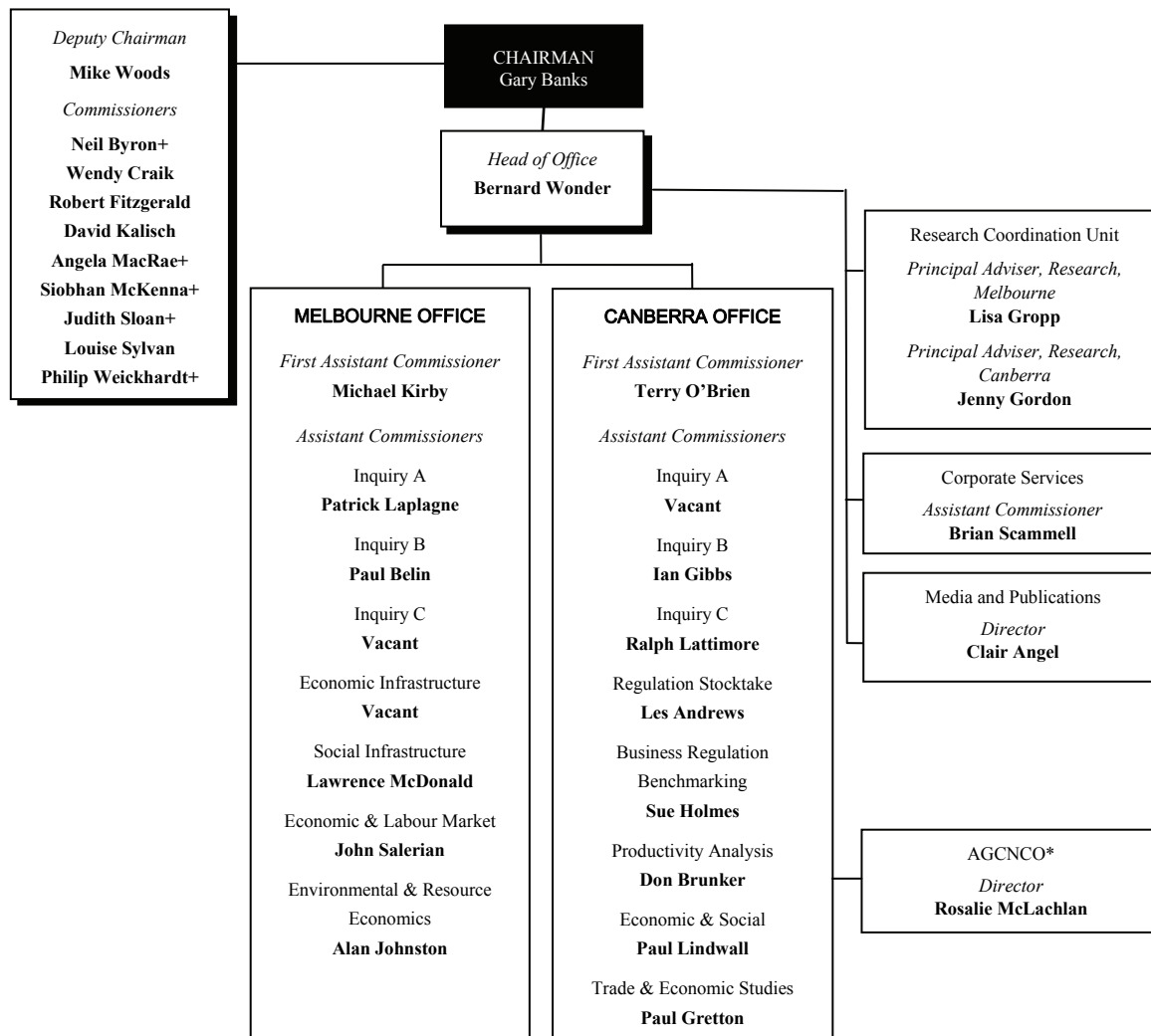
The Commission's structure and senior staff at 30 June 2009 are shown in figure A.1.

Commissioners

At 30 June 2009 there were eleven Commissioners, including the Chairman. Five Commissioners were part-time appointments.

On 8 October 2008 Commissioner Mike Woods was appointed as Deputy Chair until the end of his current appointment as a Commissioner on 16 April 2011.

Figure A.1 Productivity Commission structure and senior staff, 30 June 2009



+ Part-time Commissioners
* Australian Government Competitive Neutrality
Complaints Office

Commissioner Philip Weickhardt was re-appointed on a part-time basis for five years from 12 December 2008. Commissioner Robert Fitzgerald AM was re-appointed on a full-time basis for five years from 27 January 2009.

On 1 August 2008 Ms Louise Sylvan was appointed as a full-time Commissioner for five years. Ms Sylvan had previously been Deputy Chair of the Australian Competition and Consumer Commission, and is a former Chief Executive of the Australian Consumers' Association (ACA) and President of Consumers International. Ms Sylvan has also served internationally on the OECD Consumer Policy Committee and nationally on the federal government's Expert Group in

Electronic Commerce and the Australian Statistics Advisory Council to the ABS. Prior memberships also include six years on the Australian Prime Minister's Economic Planning Advisory Council and the Self-Regulation Task Force in 1999-2000.

On 4 June 2009 Dr Wendy Craik AM and Mr David Kalisch were appointed as full-time Commissioners, and Ms Siobhan McKenna was appointed as a part-time Commissioner, each for a period of five years.

Dr Craik was Chief Executive of the Murray-Darling Basin Commission from 2004 to 2008. She was previously President of the National Competition Council, Chair of the Australian Fisheries Management Authority and Chair of the National Rural Advisory Council. Other former positions include Executive Director of the National Farmers Federation, Executive Officer of the Great Barrier Reef Marine Park Authority and CEO of Earth Sanctuaries Ltd. Dr Craik holds a Bachelor of Science (Hons) from the ANU, a PhD (Zoology) from University of British Columbia, and a Graduate Diploma in Management from the Capricornia Institute in Queensland. She was made a Member of the Order of Australia in 2007 for service to the natural resources sector and for contributions to policies affecting rural and regional Australia.

Mr Kalisch had been a Deputy Secretary in the Department of Health and Ageing for the past few years. In that role he had a range of responsibilities, including for portfolio strategies, acute care policy and health workforce. He has done research and formulated policy in a range of welfare, labour market and social policy areas within government since the early 1980s. He also spent some years in the Employment and Social Policy Divisions of the OECD and at the Australian Delegation in Paris. Mr Kalisch has been a member of the Board of the Australian Institute of Family Studies, the Australian Institute of Health and Welfare and the National Blood Authority. He has an honours degree in economics from the University of Adelaide.

Ms McKenna had been an Associate Commissioner working on the infrastructure services study that forms part of the rolling review of regulatory burdens on business. She was previously an Associate Commissioner on the Chemicals and Plastics research study. In addition to her role as a part-time Commissioner, Ms McKenna is the Managing Partner of Illyria Pty Ltd a media focused investment company. In earlier years, she was a Partner of McKinsey & Company. More recently she has been on the Advisory Board of the Bureau of Meteorology. Ms McKenna has a Bachelor of Economics (Honours) degree from the Australian National University and a Master of Philosophy from Cambridge University.

Commissioner Matthew Butlin resigned with effect from 30 September 2008 to take up the position of Chairman of the Victorian Competition and Efficiency Commission.

Commissioner Steven Kates' term of appointment expired on 16 April 2009.

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

Associate Commissioners

At 30 June 2009 three Associate Commissioner appointments were current (table A1.2 of attachment A1).

On 2 February 2009 Paul Coghlan was appointed on a part-time basis to assist with the current stage of the Commission's work stream on Performance Benchmarking of Australian Business Regulation, focusing on occupational health and safety regulation and food safety regulation. Mr Coghlan has extensive experience in regulatory review activities, including as a former head of the Office of Regulation Review. He has previously been appointed as a part-time Associate Commissioner for the commissioned study on Standard Setting and Laboratory Accreditation conducted in 2006.

On 16 March 2009 Mr Dennis Trewin AO was appointed on a part-time basis for the duration of the study on the contributions of the not-for-profit sector. Mr Trewin has extensive experience in the application of official statistics to research and analysis of economic, social and environmental policy issues. He was the Australian Statistician and head of the Australian Bureau of Statistics from July 2000 until January 2007. Prior to that Mr Trewin was Deputy Australian Statistician and, from 1992 to 1995, Deputy Government Statistician in New Zealand.

On 17 March 2009 Professor Allan Fels AO was appointed on a part-time basis for the duration of the inquiry into executive remuneration. Since 2003, he has been the Dean of the Australia and New Zealand School of Government. Professor Fels was Chairman of the Australian Competition and Consumer Commission from 1995 until 30 June 2003 and prior to that he was Chairman of the Trade Practices Commission from 1991 to 1995 and Chairman of the Prices Surveillance Authority from 1989 to 1992. He was co-Chair of the OECD Trade and Competition Committee from 1996 to 2003.

Associate Commissioner appointments completed during 2008-09 are listed in table A1.3 of attachment A1.

Staff

The average staffing level during 2008-09 was 184 compared to 199 in 2007-08. This in part reflects the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation, as part of the revised administrative arrangements following the 2007 Federal Election.

The Commission recruited 26 staff during the year, including eight through its graduate recruitment program. Staff turnover was approximately 15 per cent.

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

Outcome, outputs and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 24 — through the provision of four mandated outputs, are summarised in table A.1. An agency resource statement for 2008-09 is included at Attachment A2. Performance information in respect of these outputs is provided in appendix B.

Table A.1 Financial and staffing resources summary

	<i>Budget *</i> <i>2008-09</i> <i>\$'000</i>	<i>Actual</i> <i>2008-09</i> <i>\$'000</i>	<i>Variation</i> <i>\$'000</i>
Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective			
	<i>(a)</i>	<i>(b)</i>	<i>(a-b)</i>
Output Group 1.1 - Productivity Commission			
Departmental Outputs			
Ordinary Annual Services (Appropriation Bill No. 1)	30,753	30,159	594
Previous years' outputs	868	868	-
Revenues and gains from other sources	735	735	-
Total for Outcome 1	32,356	31,762	594
Average Staffing Level (number)		184	

* Full-year budget, including any subsequent adjustment made to the 2008-09 Budget

Governance

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

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

- establishing clear responsibilities for decision making and the undertaking of mandated activities
- ensuring accountability through the monitoring of progress, and compliance with legislative and other requirements, of mandated activities
- underpinning these arrangements through the promotion of a risk management and ethical behaviour culture.

Key responsibilities

The Commission's Chairman is responsible for the overall management and governance of the Commission.

He is assisted in these tasks by the Head of Office and a Management Committee which addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee comprises the Chairman (as chair), Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners and the Assistant Commissioner, Corporate Services. It meets monthly, or more frequently as necessary.

The Research Committee is responsible for approving research proposals and ensuring that these are consistent with the Commission's objectives and current research themes. More generally, it also promotes the effectiveness and efficiency of the Commission's research program. It meets monthly and comprises the Melbourne and Canberra Principal Advisers Research (alternate chairs), the Chairman, the Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners, two research Assistant Commissioners and the Media and Publications Director.

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

Accountability

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

Monthly Commission meetings — also attended by senior staff — are used to discuss and monitor progress across the Commission's four mandated outputs. Specifically:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- the Research Committee reports on a quarterly basis on the status and future directions of the research program
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis
- one Commissioner is designated with responsibility for competitive neutrality issues, and also reports to the Commission on a quarterly basis
- the Head of Office provides Commissioners with a monthly update on key management issues.

The Audit Committee is a further source of accountability through its periodic review of particular aspects of the Commission's operations. Its membership comprises a chairperson (currently a Commissioner) and two senior members of staff. The Commission's contracted internal auditors generally attend meetings, as does a representative of the Australian National Audit Office on an 'as required' basis. The Audit Committee meets at least four times a year.

Risk management and fraud control

Risk assessments are undertaken within a formal risk management model specified in the Commission's risk management plan. The plan is reviewed annually by senior management and the Audit Committee.

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. No instances of fraud were reported during 2008-09. The Chairman's certification in respect of fraud control is at attachment A3.

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

Ethical standards

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

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

The Commission has developed a number of specific policies relating to ethical standards which have regard to its own operational context. These deal with matters such as email and internet use, harassment and bullying, discrimination, fraud, disclosure of information, and managing conflicts of interest. The policies are readily available to all employees. Staff awareness and training sessions are offered in these topics.

External and internal scrutiny

The Commission's transparent and consultative processes, which provide for community participation and scrutiny of its work, are a key means of promoting external scrutiny. These processes are outlined in some detail in the corporate chapters of the Commission's annual reports.

External scrutiny is also promoted through the Commission's extensive reporting, in various publications, of different aspects of its work. This annual report is an example and, in particular, appendix B provides an account of the Commission's performance in its four output groups.

Both the Commission and the Australian Government Competitive Neutrality Complaints Office (which has separate functions although located within the Commission) have service charters.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2008-09 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2007-08 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix B. In addition, the Senate Standing Committee on Economics (2008) commended the Commission for including a comprehensive compliance index against both FMA Act and PC Act reporting requirements in its 2007-08 Annual Report, in response to the committee's suggestion. Details of the Commission's appearances at Senate Estimates hearings in 2008-09 are included in appendix B in response to a further suggestion by the Committee.

Internal scrutiny occurs through an ongoing review program of policies, procedures and activities for effectiveness, efficiency and public accountability. Particular matters addressed during the year included the following.

Website and publications: The Commission's website continues to provide a valuable source of information about the current work of the Commission, its publications and other activities. During 2008-09 the Commission continued to enhance the structure and presentation of website content.

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

- joining FedLink to enable secure communication with other Australian Government agencies, following an assessment of the security of the Commission's ICT environment
- upgrade of the fire suppression system in the Melbourne server room
- improved 'out-of-office' secure access to systems.

Human Resources: Recruitment and selection guidelines were reviewed and updated during 2008-09, together with the work value matrix used as the basis of staff performance appraisals. The Commission also continued a system of ‘upwards appraisal’ for Commissioners and Senior Executives, intended to enhance individual development and improve organisational performance, by providing another avenue for feedback from staff.

Internal Audit: The Commission engaged an accounting firm, PKF, to conduct a program of internal audits over a three-year period commencing in 2006-07. Internal audits conducted in 2008-09 focused on payroll, purchasing, accounts payable, credit cards and travel. No control or compliance deficiencies involving unacceptable risk were identified.

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

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

Management of human resources

The Commission’s human resources management operates within the context of relevant legislation, government policy and Commission-developed policy. Day-to-day management is devolved to senior managers within a broad framework agreed by Management Committee. The Committee routinely monitors the performance of people management functions through a range of feedback mechanisms, including through standing reports to its monthly meetings.

Workforce planning

Management Committee plays the key role for ensuring alignment between the Commission’s resources and its future capability requirements.

The Commission regularly considers a range of workforce planning issues associated with the attraction, retention and development of staff. In particular, the Commission has been actively monitoring the age profile of its workforce and is

seeking to retain mature aged employees by making available flexible working arrangements.

The Commission reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Eight new employees were engaged during 2008-09 through the Commission's graduate recruitment program.

An important input to workforce planning is the information obtained from departing employees through exit questionnaires and, in many cases, personal interviews on exit. Such information is considered regularly by Management Committee and applied to a variety of initiatives including conditions of service, developing employment agreements, and employee retention strategies.

Remuneration and employment conditions

All Commissioners, aside from the Chairman, are part of the Principal Executive Office structure established by the Government. The Chairman, as the 'employing body', is responsible for determining Commissioners' remuneration within guidelines and parameters set and reviewed by the Remuneration Tribunal. The Chairman's remuneration continues to be set directly by the Tribunal.

The Commission's 19 Senior Executive Service (SES) employees are employed under Australian Workplace Agreements or individual determinations under the *Public Service Act 1999*. SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS SES Remuneration Survey conducted for the Department of Education, Employment and Workplace Relations.

Information on Commissioners and SES employees who received total remuneration of \$130 000 or more is set out in Note 11 to the Financial Statements (appendix F).

The Commission's non-SES employees are part of a collective agreement negotiated with the Commission's employees under the *Workplace Relations Act 2006*. The agreement has a nominal expiry date of 20 February 2010. The levels of remuneration and terms and conditions of employment of approximately 167 employees are covered by the Commission's collective agreement.

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

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

Performance management and pay

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

- clarify the understanding by individual employees of their work tasks, their responsibilities and the performance standards expected (through performance agreements)
- provide feedback on performance and improve communication between supervisors and their staff (through performance appraisals)
- provide a basis for determining salary advancement and performance bonuses
- identify learning and development needs
- assist in identifying and managing underperformance.

Ahead of each appraisal round — which occurs at six monthly intervals — senior staff attend 'context setting' meetings to promote a consistent approach to the appraisal process and outcomes. Training is conducted for new employees and new managers to ensure employee readiness for the appraisal round.

Appraisal outcomes influence salary advancement and performance bonuses. Under the collective agreement, bonuses of 3 per cent of salary are paid to those employees who achieved the highest performance rating. For SES employees, somewhat higher bonuses are able to be achieved, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. For Principal Executive Offices, bonuses of up to 15 per cent of total remuneration are available within the Remuneration Tribunal framework.

Performance bonuses paid for 2008-09 are summarised in table A.2.

Table A.2 Performance bonuses paid for 2008-09

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	4	6 371	1 592
Staff Level 2	7	7 563	1 080
Staff Level 3	10	15 459	1 546
Staff Level 4	14	30 118	2 151
SES	19	189 468	9 972
Principal Executive Officers	7	100 124	14 303
Total	61	349 103	5 723

Consultative arrangements

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The PCCC comprises five elected employee representatives and four management representatives.

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

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

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

Learning and development

The Commission encourages employees to undertake learning and development in an appropriate mix of four core competencies:

- management and leadership
- conceptual and analytical skills
- time and work management
- oral and written communication.

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

Recorded expenditure on learning and development in 2008-09 was 1 per cent of the annual salary budget. This expenditure related to:

- 114 employees who undertook a total of 327 days of specific training and development
- 30 Staff Level 3 employees who attended two-day general development programs
- 7 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications.

The above activities are in addition to one-on-one coaching to address particular development needs and extensive on-the-job training within the Commission.

Occupational health & safety (OHS)

An OHS Committee oversees the Commission's health and safety program. Committee membership includes health and safety representatives and staff observers from both offices. The Committee met three times during 2008-09.

The Commission has developed health and safety management arrangements in consultation with staff consistent with the requirements of OHS legislation.

OHS activities during the year included:

- Commission funded flu vaccinations (take up rate in 2008-09 was around 56 per cent)
- ergonomic work station assessments (38 were completed, including 19 as part of the induction program — they are provided for all new employees as well as existing employees who require advice, particularly after a workplace relocation)
- regular workplace hazard inspections conducted by members of the OHS Committee
- desk calendars for all employees promoting emergency evacuation and threat procedures
- the opportunity for employees to complete working hours questionnaires
- workplace health related seminars
- a review of the pandemic response plan.

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

No formal OHS investigations were conducted during the year and the Commission was not required to give any notices under section 68 of the *Occupational Health and Safety Act 1991*. No notices under sections 29, 46 or 47 of that Act were given to the Commission during 2008-09.

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation rate. The Commission's rate for 2008-09 was assessed at approximately one-fifth of the rate for the whole-of-Australian Government pool.

Employee Assistance Program

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. During 2008-09, the external provider of this service conducted information sessions for staff about the type of the services available. Seven employees or their families utilised the service in 2008-09.

Workplace diversity

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

During 2008-09 the Commission reviewed its equity and diversity plan which operates to 2012.

Commonwealth Disability Strategy

The Commonwealth Disability Strategy is designed to help agencies improve access for people with disabilities to their services and facilities. Attachment A3 provides a summary of the Commission's performance in this area during 2008-09.

Financial performance

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

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

The operating result for 2008-09 was a \$0.6 million surplus (\$0.2 million in 2007-08).

Additional funding was provided to the Commission in the 2009-10 Budget, as part of the measure relating to implementation of the COAG federal financial framework, including \$0.9 million for prior years' outputs in 2008-09.

However, overall, appropriations and other income decreased slightly to \$32.4 million in 2008-09 (\$32.6 million in 2007-08). This decrease is largely a consequence of the full-year impact of the transfer of the Office of Best Practice Regulation to the Department of Finance and Deregulation in 2007-08 as part of the administrative arrangements implemented following the 2007 Federal Election.

Operating expenses also decreased in 2008-09 to \$31.8 million (\$32.4 million in 2007-08). The major expenses in 2008-09 were \$23.1 million in respect of employee expenses, \$7.0 million relating to supplier payments, and \$1.7 million in asset depreciation, amortisation and related expenses.

Table A.1 provides a summary of financial and staffing resources by output. The agency resource statement is provided at Attachment A2. The audited financial statements for 2008-09 are shown in appendix F.

Other information

Purchasing

The Commission applies the Commonwealth Procurement Guidelines.

The Commission's purchases of goods and services during 2008-09 were consistent with the 'value-for-money' principle underpinning those guidelines.

Consultancies

The Commission continued to utilise the services of a range of consultants during the year where it was cost effective to do so. Many of the consultancies are for the purpose of refereeing particular pieces of work and are generally of relatively low cost.

During 2008-09, 12 new consultancy contracts were entered into involving total actual expenditure of \$124 105. There were no ongoing consultancy contracts during the 2008-09 year.

Table A.3 provides information on expenditure on consultants in the five years to 2008-09.

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

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

Table A.3 Expenditure on consultancies, 2004-05 to 2008-09

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	249	308	229	493	124

Special payments

The Commission made a number of special payments during 2008-09. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium memberships: \$23 135 for membership of the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It gives the Commission early access to database updates that are needed in its research, priority access to model training, and input to the future direction of model and database development.

Research partnerships: \$26 400 to the Australian National University for an ARC partnership project on setting priorities for services trade reform; and \$11 000 to the University of NSW for an ARC partnership project on productivity measurement in infrastructure, services, and research and development.

Conference sponsorships: \$5500 to the Australian Agricultural and Resource Economics 53rd Annual Conference; \$7500 for the 37th Australian Conference of Economists 2008; \$2200 to the Australian National University for the 2008 PhD

Conference in Economics and Business; and \$550 to the Australian Evaluation Society Annual Conference.

Awards: \$1200 to the 2008 top student, Economics Honours, at Monash University (R H Snape Productivity Commission Prize); \$1000 to the top student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize); \$300 to each of the top two students, Faculty of Law and Management, La Trobe University.

Legal services

Total expenditure on legal services in 2008-09 was \$24 997. Further details are published on the Commission's website, in accordance with *Legal Services Directions 2005* issued by the Attorney-General.

Ecologically sustainable development (ESD)

Under the *Environment Protection and Biodiversity Conservation Act 1999*, agencies are required — through their annual reports — to report on ESD and environmental matters. This requirement is part of the Government's program to improve progress in implementing ESD.

The Commission operates under statutory guidelines, one of which is to have regard to the need 'to ensure that industry develops in a way that is ecologically sustainable' (section 8(1)(i) of the *Productivity Commission Act 1998*). This legislation also prescribes that at least one member of the Commission 'must have extensive skills and experience in matters relating to the principles of ecologically sustainable development and environmental conservation' (section 26(3)).

There are five aspects against which agencies are required to report.

The first relates to how an agency's actions during the reporting period accorded with the principles of ESD.

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen have been provided in past annual reports. The Commission's recent inquiry into government drought support arrangements is a further example of work being undertaken which will require integration of complex economic, social and environmental considerations.

The second reporting requirement asks how the Government's outcome for the Commission contributes to ESD. As stated elsewhere in this report, the outcome nominated for the Commission is:

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

In pursuing this outcome, the Commission is required to take into account impacts on the community as a whole — these may be economic, environmental and/or social. The transparency of its processes provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. Consequently, a broad range of views and circumstances are taken into account, in keeping with the ESD principle that 'decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations'.

The third to fifth reporting requirements relate to the impact of the Commission's internal operations on the environment. The Commission is a relatively small, largely office-based, organisation in rented accommodation, and the actions able to be taken are somewhat limited. However, the Commission adopts measures aimed at the efficient management of waste and minimising energy consumption.

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

Freedom of information

No requests were received in 2008-09 for access to information under the *Freedom of Information Act 1982*. A statement encompassing formal reporting requirements is provided in Attachment A5.

Advertising and market research

The Commission publicises its government-commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases, an email alert service, notification on the Commission's website and distribution of Commission circulars.

A total of \$168 760 was paid for advertising (including recruitment advertising) in 2008-09 to HMA Blaze Pty Ltd.

Publications and submissions

Appendix E lists all the Commission's publications in 2008-09.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 49 of the *Financial Management and Accountability Act 1997* and section 8 of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 10 of the *Productivity Commission Act 1998*.

The annual report has also been prepared in accordance with parliamentary requirements for departmental annual reports issued by the Department of the Prime Minister and Cabinet. A compliance index is provided in attachment A6.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Productivity Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2251
Facsimile: (03) 9653 2304

The Commission's internet home page is at <http://www.pc.gov.au>

This annual report can be found at the above internet address. Inquiries about any Commission publication can be made to:

Director
Media and Publications Section
Productivity Commission
PO Box 1428
CANBERRA CITY ACT 2601
Telephone: (02) 6240 3239
Facsimile: (02) 6240 3300

Attachment A1

Commissioner and employee statistics

Table A1.1 Chairman and Commissioners, 30 June 2009

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2008	19 May 2013
Mr M C Woods (Deputy Chairman)	17 Apr 2006	16 Apr 2011
Dr R N Byron (C) (p/t)	17 Apr 2007	16 Apr 2012
Dr W Craik AM (C)	4 Jun 2009	3 Jun 2014
Mr R Fitzgerald AM (C)	27 Jan 2009	26 Jan 2014
Mr D Kalisch (C)	4 Jun 2009	3 Jun 2014
Ms A MacRae (M) (p/t)	19 Mar 2007	18 Mar 2010
Ms S McKenna (M) (p/t)	4 Jun 2009	3 Jun 2014
Prof J Sloan (M) (p/t)	17 Apr 2006	16 Apr 2010
Ms L Sylvan (C)	1 Aug 2008	31 July 2013
Mr P Weickhardt (M) (p/t)	4 Dec 2008	3 Dec 2013

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

Table A1.2 Part-time Associate Commissioners, 30 June 2009

	<i>Inquiry/Study</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Mr P Coghlan	Performance Benchmarking of Australian Business Regulation	2 Feb 2009	29 Jan 2010
Mr D Trewin AO	Contribution of the Not-for-Profit Sector	16 Mar 2009	15 Feb 2010
Prof A Fels AO	Regulation of Director and Executive Remuneration in Australia	17 Mar 2009	16 Jan 2010

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

Table A1.3 Part-time Associate Commissioners completing appointments during 2008-09

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Ms S McKenna	Regulation of chemicals and plastics	27 Jul 2007	27 Aug 2008
	Social and Economic Infrastructure Services	8 Oct 2008	17 May 2009
Mr R G Granger	Government drought support	20 Jun 2008	19 Apr 2009

Table A1.4 Employees by location and gender, 30 June 2009

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	0	0	0	1	1	0	1	1
SES Band 2	1	1	2	1	1	2	2	2	4
SES Band 1	0	7	7	1	6	7	1	13	14
Staff Level 4	9	13	22	6	18	24	15	31	46
Staff Level 3	15	8	23	6	9	15	21	17	38
Staff Level 2	16	12	28	3	10	13	19	22	41
Staff Level 1	14	8	22	10	2	12	24	10	34
Total^b	55	49	104	27	47	74	82	96	178
Corresponding totals at 30 June 2008 ^a	61	49	110	24	50	74	85	99	184

^a Totals exclude 7 inoperative employees at 30 June 2008. ^b Totals exclude 8 inoperative employees at 30 June 2009; 2009 totals also include 1 acting SL4, 1 acting SL3 and 2 acting SL2s.

Table A1.5 Employees by employment status and gender, 30 June 2009

<i>Level</i>	<i>Female</i>			<i>Male</i>			<i>Total</i>		
	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	2	0	2	2	0	2	4	0	4
SES Band 1	1	0	1	13	0	13	14	0	14
Staff Level 4	9	6	15	30	1	31	39	7	46
Staff Level 3	17	4	21	17	0	17	34	4	38
Staff Level 2	12	7	19	20	2	22	32	9	41
Staff Level 1	18	6	24	10	0	10	28	6	34
Total^b	59	23	82	93	3	96	152	26	178
Corresponding totals at 30 June 2008 ^a	66	19	85	96	3	99	162	22	184

^a Totals exclude 7 inoperative employees at 30 June 2008. ^b Totals exclude 8 inoperative employees at 30 June 2009

Table A1.6 Employees by level and reason for separation, 2008-09

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity</i>			<i>Other</i>	<i>Total</i>
				<i>Retirement</i>	<i>VRP^a</i>			
SES	0	0	3	0	0	0	3	
Staff Level 4	0	2	3	0	0	0	5	
Staff Level 3	0	5	6	0	0	0	11	
Staff Level 2	2	2	1	0	0	0	5	
Staff Level 1	2	1	1	0	0	0	4	
Total	4	10	14	0	0	0	28	
Corresponding totals at 30 June 2008	3	7	20	1	0	0	31	

^a Voluntary Redundancy Package.

Attachment A2

Agency Resource Statement — 2008-09

	<i>Actual Available Appropriation 2008-09 \$'000</i>	<i>Payments Made 2008-09 \$'000</i>	<i>Balance Remaining \$'000</i>
	<i>(a)</i>	<i>(b)</i>	<i>(a-b)</i>
Ordinary Annual Services¹			
Departmental appropriation			
Prior year Departmental appropriation	9,267	-	-
Departmental appropriation	30,753	29,094	10,926
S.31 Relevant agency receipts ³	698	698	-
Total ordinary annual services	40,718	29,792	10,926
Other services²			
Departmental non-operating			
Previous years' outputs	-	-	-
Total other services	-	-	-
Total Resourcing and Payments	40,718	29,792	10,926

¹ Appropriation Bill (No.1) 2008-09 and Appropriation Bill (No.3) 2008-09.

² Appropriation Bill (No.2) 2008-09 and Appropriation Bill (No.4) 2008-09.

³ Receipts received under section 31 of the *Financial Management and Accountability Act 1997*



Australian Government
Productivity Commission

GPO Box 1428
Canberra City ACT 2601
Telephone 02 6240 3202
Facsimile 02 6240 3300
www.pc.gov.au

From the Chairman's Office

20 August 2009

Annual Report 2008-09 – Fraud Control Certification

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

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

A handwritten signature in black ink that reads "Gary Banks". The signature is written in a cursive style with a large initial "G" and "B".

Gary Banks AO

Attachment A4

Commonwealth Disability Strategy (CDS): outcomes against performance indicators

Performance requirements of the 'policy adviser' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
New or revised program/policy proposals assess impact on the lives of people with disabilities prior to decision	Percentage of new or revised policy/program proposals that document that the impact of the proposal was considered prior to the decision making stage	<p>Commission policies have checklists that cover the consideration of access (including disability) matters. The extent to which such considerations develop varies from inquiry to inquiry.</p> <p>Project evaluation templates have a section included for comments on disability issues as defined in our Disability Action Plan. Any comments are monitored to assess if procedures need to be further reviewed. No concerns were noted in reports.</p> <p>The Commission continues to promote the awareness of issues related to people with disabilities to all new employees through its induction program and briefings to other employees as appropriate.</p>
People with disabilities are included in consultations about new or revised policy/program proposals	Percentage of consultations about new or revised policy/program proposals that are developed in consultation with people with disabilities	<p>Commission inquiries are open to the public. Where appropriate, consultation is facilitated by:</p> <ul style="list-style-type: none"> • advertisements in the national press inviting submissions • development of interested parties lists • website conforms to mandatory disability access requirements • portable hearing loop available for public hearings • checklist on accessibility at venues.
Public announcements of new, revised or proposed policy/program initiatives are available in accessible formats for people with disabilities in a timely manner	Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats	100 per cent available on website. The 'Accessibility' page on the website was updated in 2008-09.

(continued next page)

Performance requirements of the 'employer' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Employment policies, procedures and practices comply with the requirements of the <i>Disability Discrimination Act 1992</i>	Number of employment policies, procedures and practices that meet the requirements of the <i>Disability Discrimination Act 1992</i>	The Commission's Collective Agreement, Equity and Diversity Plan, Disability Action Plan and related policies and procedures have been developed with cognisance of the requirements of the Act. The Equity and Diversity Plan was reviewed in 2008-09.
Recruitment information for potential job applicants is available in accessible formats on request	Percentage of recruitment information requested and provided in:	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press.
	<ul style="list-style-type: none"> • accessible electronic formats 	100 per cent available.
	<ul style="list-style-type: none"> • accessible formats other than electronic. 	None requested.
	Average time taken to provide accessible information in:	
	<ul style="list-style-type: none"> • electronic format 	Immediate. One electronic file request received for screen reader – provided by email within 24 hours.
	<ul style="list-style-type: none"> • formats other than electronic 	Dependent on request. Information has been sourced on the procedures for requesting alternative formats such as Braille and audio and is available should a request be received.
Agency recruiters and managers apply the principle of 'reasonable adjustment'	Percentage of recruiters and managers provided with information on 'reasonable adjustment'	Where relevant, selection panels are provided with this information. Managers receive information as required. Folders containing the list of candidates includes a reference to access and equity considerations, including 'reasonable adjustment'. A register has also been developed to record all requests for information in formats such as Braille and audiocassette. No requests were received during 2008-09.
Training and development programs consider the needs of employees with disabilities	Percentage of training and development programs that consider the needs of employees with disabilities	Training nomination forms include a section requesting information on the additional needs of employees. It is monitored by the training administrator. No assistance was requested during 2008-09.

(continued next page)

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Training and development programs include information on disability issues as they relate to the content of the program	Percentage of training and development programs that include information on disability issues as they relate to the program	Induction programs include information on these issues including our Equity and Diversity Plan, Access and Equity and Disability Action Plans.
Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by employees relating to disability issues	Established complaints/grievance mechanisms, including access to external mechanisms, in operation	These issues can be addressed with managers, Harassment Contact Officers, Employee Assistance Program and formally with 'Review of Action' procedures which are available to all employees. No procedures were conducted in 2008-09.

Attachment A5

Consultancies

The following information is provided in accordance with government reporting requirements.

Selection

The Commission selects and engages consultants under the following circumstances:

- unavailability of specialist in-house resources within the project timeframe
- a need for independent expert advice, information or evaluation to assist in its research
- a need for specialised professional services including legal advice and benchmarking of its activities.

Procedures

The Commission's selection procedures follow the value-for-money objectives of the *Commonwealth Procurement Guidelines*. Under the *Productivity Commission Act 1998*, if the estimated value of a consultancy exceeds the amount prescribed by the regulations, the Chairman must ensure that an open, competitive tendering process is used in selecting the consultant. The amount prescribed by the regulations was increased from \$20 000 to \$80 000, with effect from 14 June 2007, to align with the mandatory open tender threshold set out in the procurement guidelines.

Purposes

The main purposes for which consultants were engaged in 2008-09 were to provide expert technical advice for a range of projects, referee particular pieces of work, undertake modelling work and provide expert advice.

Consultancies over \$10,000

The following table lists those consultancies let in 2008-09 valued at \$10 000 or more, including the method of selection, the reason for the consultancy and a summary of the overall costs involved. The total figure refers to total value of the contracts let, irrespective of the period of the contract, noting that some contracts are for periods in excess of one year.

Consultancy contracts let in 2008-09 valued at \$10,000 or more

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract Amount</i>	<i>Selection Process (1)</i>	<i>Justification (2)</i>
Regulation review				
University of Melbourne	Investigation of potential solution methods for a multistage stochastic urban water model	13 200	3	B
Baldwins-FoodLegal	Comparison across Australia and New Zealand of food safety legislation for primary production and processing	36 410	3	B
Sensis Pty Ltd	Surveying small and medium enterprises (SMEs) about the impact of OHS regulations on compliance costs	49 445	3	B
Total consultancies		99 055		

(1) Procurement Method

1. Open Tender
2. Select Tender
3. Direct Sourcing
4. Panel

(2) Reason for Contract

- A. Skills currently unavailable within agency
- B. Need for specialised or professional skills
- C. Need for independent research or assessment

(2) GST

All figures are GST inclusive.

Attachment A6

Freedom of Information Statement

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982*.

Organisation, role and functions

The role, functions and organisational structure of the Commission are detailed elsewhere in this report.

Arrangements for outside participation

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government and the Commission's inquiry procedures actively seek to encourage participation by all interested parties. In respect of its non-inquiry work, the Commission's procedures aim to promote transparency to the greatest extent possible.

The Commission may require people to send it information and summons persons to give evidence. People who assist the Commission by providing information, giving evidence at hearings or in any other way assist the Commission in the performance of its functions have protection under the Productivity Commission Act from intimidation and civil actions. Details of inquiry participation and consultation are given in each inquiry and commissioned research report.

The Commission periodically invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program. The Commission also meets with academics in various cities for the same purpose.

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

The procedures of the Australian Government Competitive Neutrality Complaints Office allow any individual, organisation or government body to consider and, if necessary, lodge a complaint in relation to the application of competitive neutrality policy.

Categories of documents

Principal categories include:

- commissioned projects records including information circulars, issues papers, project guidelines, draft reports, submissions, participant correspondence and public hearing transcripts
- documents relating to infrastructure research and performance monitoring across the Australian Government, States and Territories
- documents relating to national and international benchmarking
- competitive neutrality complaint queries and details of investigations
- documents relating to research on industry and productivity issues
- administrative, policy, procedural and contractual documents, relating to information technology, human and financial resource management
- legal advice and other legal documents
- Freedom of Information documents
- media releases
- mailing lists
- speeches
- consultancy documents
- service charters
- parliamentary questions and answers
- submissions to inquiries undertaken by other organisations.

Facilities for access

Information circulars, issue papers, project guidelines and draft reports are sent to interested parties and project participants. They are also available from the Commission's website or free of charge from the Commission. Final reports are distributed, free of charge, to project participants and are also available from the Commission's website.

Documents available from the Commission's website and for purchase from CanPrint Communications include:

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

-
- reports by the Steering Committee for the Review of Government Service Provision.

Reports on competitive neutrality matters, submissions made by the Commission to other review bodies and Staff Working Papers are available from the Commission's website.

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

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

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

Attachment A7

Compliance index

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

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Compliance with the Productivity Commission Act

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

s.10(1) Commission operations	chapter 2 and appendix A
s.10(2) matters referred to the Commission	appendix C
s.10(4) competitive neutrality complaints	39

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

- *Trade & Assistance Review 2008-09*

B Program performance

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

The Commission's four output streams comprise public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, competitive neutrality complaints activities, and supporting research and statutory annual reporting. This appendix sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's outputs and related performance in 2008-09.

Objectives for performance assessment

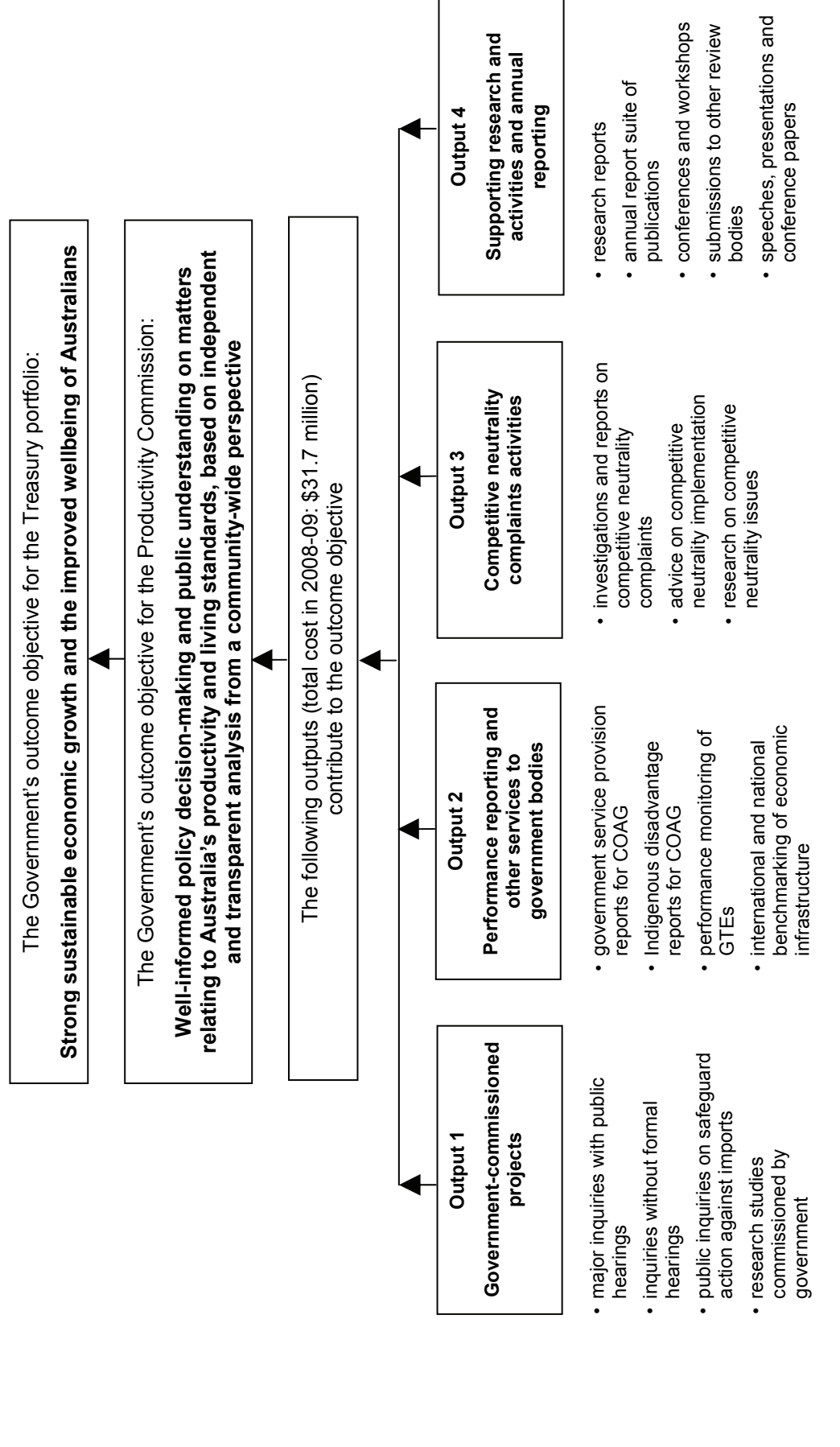
The Government's single outcome objective for the Commission against which the Commission's overall performance is to be assessed is:

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

The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual-based outcomes and outputs framework, these activities have been classified into four outputs:

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

Figure B.1 Productivity Commission outcome/output framework 2008-09



The Commission's outcome objective is embedded within the Government's broader outcome objective for the Treasury portfolio as a whole:

to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

Commission activities

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

- undertaking individual projects specifically commissioned by government, including commissioned projects of an inquiry and research nature relating to regulatory issues (Output 1)
- meeting standing research, investigatory and advisory functions nominated by government (Outputs 2 and 3)
- research undertaken in response to emerging needs for policy-relevant information and enhanced analytical frameworks, and for building the Commission's capacity to respond to the policy priorities of government (Output 4).

Commissioned projects

Government-commissioned projects have individual terms of reference.

Public inquiries involve extensive public consultation — such as visits, submissions and public hearings — to help identify the relevant issues, assist in the analysis of information and the development of policy options, and to obtain feedback on the Commission's analysis and proposed recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'Position Paper' as part of this consultation process before finalising its report to government. Inquiry reports are tabled in Parliament.

Commissioned research studies are generally concerned with assembling policy-relevant information or analysis of policy options for tasks that are often narrower in scope, and required in shorter timeframes, than inquiries. They typically involve less public interaction than inquiries and no formal public hearings. The Commission adapts its inquiry processes in conducting these studies, although it aims to expose its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

Standing functions

The Government has established a number of standing research, investigatory and advisory functions for the Commission. These comprise:

- secretariat and research services for the Steering Committee for the Review of Government Service Provision. The Steering Committee is responsible for the publication of national performance indicators for service provision and Indigenous disadvantage, and related research reports. It is also responsible for providing the COAG Reform Council with performance information relating to six National Agreements (schedules to the Intergovernmental Agreement on Federal Financial Relations)
- secretariat and research services for the Indigenous Expenditure Report Steering Committee. The Steering Committee is responsible for reporting on expenditure on services to Indigenous Australians
- national and international benchmarking of key economic infrastructure industries, a standing research direction from the Government. The Commission has some discretion in the choice of industry and timing, guided by an assessment of the Government's policy needs
- reports and related activities necessary to meet the Commission's statutory obligation to investigate complaints that an Australian Government business is not conducted in accordance with competitive neutrality arrangements
- statutory annual reporting on assistance and regulation affecting industry (published as the *Trade & Assistance Review*) and on industry and productivity performance generally (encompassed in the Commission's Annual Report).

Government-commissioned projects and the Commission's standing functions have priority in the deployment of its staffing and financial resources.

Supporting research

The Commission also has a statutory mandate to conduct its own program of research to support its annual reporting and other responsibilities, and to promote community awareness and understanding of productivity and regulatory issues. This program of supporting research is guided by government statements on policy priorities and parliamentary debate and committee work, and draws on an extensive consultation process with Australian Government departments and agencies, peak employer and union bodies, and community and environmental groups. The views of State and Territory governments and academics are also sought.

There is a hierarchy of publications and other activities within the Commission’s program of supporting research.

- The suite of two annual reporting publications, as well as Commission Research Papers and submissions to other inquiries or reviews established by government or parliament, present the Commission’s views on policy issues.
- Published research by Commission staff aims to provide the information and analysis needed to inform policy discussion within government, parliaments and the broader community. Such research can provide ‘building blocks’ for policy development.
- Publication of the proceedings of conferences and workshops sponsored by the Commission, and of consultants’ reports to the Commission, is also intended to promote and inform discussion on important policy issues. As with staff publications, the views expressed need not reflect the views of the Commission.

Interpreting performance indicators for the Commission

The Commission has sought to demonstrate its effectiveness through a number of performance indicators that apply across its specific outputs (box B.1). Subsequent sections of this appendix report against these indicators for each of its four outputs. Feedback surveys undertaken, use of Commission outputs in the parliamentary process, and some general indicators of effectiveness are also reported below.

Box B.1 Performance indicators for Commission outputs	
<i>Outputs</i>	<i>Key indicators</i>
Government-commissioned projects	Projects, reports and associated activities: <ul style="list-style-type: none"> • of a high quality • useful to stakeholders • timely.
Performance reporting and other services to government bodies	
Competitive neutrality complaints activities	
Supporting research and activities and statutory annual reporting	

A number of factors need to be taken into account when interpreting indicators of the Commission’s performance.

First, the effectiveness with which the Commission’s activities contribute to the achievement of its designated outcome can be difficult to assess and is often subjective. The Commission is but one source of policy advice. Furthermore, feedback on the Commission’s performance often can be of an informal kind, which

is hard to document and collate systematically. Where views are documented, they can reflect the interests of those affected by the Commission's analysis or advice.

Second, the Commission's work program often covers contentious and complex policy issues, where the Commission's impact should properly be assessed over the medium to long term. Examples from the past year demonstrate the 'shelf life' of a variety of Commission reports in policy formulation and debate (box B.2).

Third, the Commission has to give priority to certain outputs and allocates its resources accordingly. The quantum and scope of the Commission's work are, to a significant extent, determined externally. This includes the number and timing of government-commissioned projects and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Government Service Provision is guided by a Steering Committee. As a consequence, the number and timeliness of outputs from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other standing commitments.

Fourth, the Commission has no control over the release of its final inquiry reports (unlike its draft reports), although the *Productivity Commission Act* requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports or the nature of the decisions themselves are matters for the Government. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, has enhanced the transparency of government decision making on Commission reports and permitted better assessment of their contribution to public policy making. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing the Commission's contribution to outcomes. All inquiry reports in 2008-09 were tabled within the statutory period.

While research studies specifically commissioned by the Government do not have to be tabled in Parliament, these reports are generally released soon after completion. Where available, government use of and responses to commissioned research studies are reported in appendix C.

This appendix reviews some broad-based indicators of Commission performance before reporting on each of its four outputs against the indicators agreed under the Government's accrual-based outcomes and outputs framework.

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

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

- On 3 December 2008, the Australian Government introduced the *Disability Discrimination and Other Human Rights Legislation Amendment Bill 2008*. The Bill, which was subsequently passed by Parliament, implemented recommendations made by the Commission in its 2004 review of the *Disability Discrimination Act 1992*. On introducing the Bill, the Attorney General stated:
The Bill will implement key recommendations made by the Productivity Commission in 2004. The amendments will clarify and modernise aspects of the Act, including making it clear that there is a duty to make reasonable adjustments for people with a disability (McLelland 2008).
- Recommendations from the Commission's 2001 *Review of the National Access Regime* were used by the Australian Government when designing a package of reforms to the Regime (Bowen 2009).
- The Commission's 2002 inquiry report on the job network featured prominently in recent discussions about the provision of employment services. In June 2009, a Senate Committee inquiry on employment services contracts drew extensively on the 2002 report and recommended that the Commission be asked to consider the design of tenders for such contracts (Senate Education, Employment and Workplace Relations References Committee 2009).
- Past Commission reports on health, ageing and aged care continued to be widely used and cited throughout the year. For example:
 - A review of the literature on the potential for efficiency gains in the health care system, undertaken by the National Health and Hospitals Reform Commission in June 2009, drew heavily on past Commission work including reports on private health insurance (IC 1997) and the potential benefits of the National Reform Agenda (PC 2006).
 - The Australian National Audit Office drew on analysis and findings within the Commission's 2005 report on the health workforce when considering the contribution of programs administered by the Department of Health and Ageing to rural and remote health workforce capacity (ANAO 2009b).
 - Previous Commission publications on aged care, including *Nursing Home Subsidies* (PC 1999), were cited during a recent Senate Standing Committee inquiry on Residential and Community Aged Care. The final report of the Committee recommended that any further reviews of this area 'should consider and assess the views, concerns and recommendations of involved stakeholders including the Productivity Commission' (Senate Standing Committee on Finance and Public Administration 2009, p. xii).
- The Parliamentary Library Research Paper of January 2009 on Commonwealth involvement in the rail freight industry drew on the analysis and findings in several past Commission reports, including the 1999 inquiry report on *Progress in Rail Reform*, the 2005 *Review of National Competition Policy Reforms* and the 2006 inquiry report on *Road and Rail Freight Infrastructure Pricing*.

Feedback surveys

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

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

Recent survey on Commission reports

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

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

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

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

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

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

In the current reporting year the Commission has assessed these survey results and their implications for the ways in which it engages with and responds to the views of the range of potential participants in its work. It has also used the results in assessing the ways it presents its analysis and conclusions and in considering ways in which it can enhance the readability of its reports. In 2008-09 the Commission commenced implementing a number of changes to the way it presents its reports in light of the responses outlined above.

Survey on the Report on Government Services

The Steering Committee for the Review of Government Service Provision seeks feedback on the usefulness of the Report on Government Services every three years and uses the feedback to increase the accountability of the Review itself. A survey of more than 500 users, undertaken in February 2007, achieved a response rate of 48 per cent, a significant improvement on that achieved in previous years. Seventy eight per cent of respondents were satisfied or very satisfied with the Report. Readers valued the performance information in the service-specific chapters, and the supporting introductory chapters and statistical appendix were widely used. An important message from the survey was that improvements to the Report should focus on data issues. Data quality and usefulness received the lowest satisfaction ratings, and improved comparability, better data quality and more timely data were identified as areas needing improvement. The survey results and the constructive suggestions made by many survey respondents are informing the work of the Steering Committee. More detailed survey results were reported in the 2007-08 Annual Report.

Other feedback

As noted in chapter 2, feedback opportunities provided through email, on-line survey forms, and survey forms included in publications or issued to participants in the Commission's public hearings remained little used in 2008-09. Much of the feedback received through these mechanisms this year was positive. Comments are passed to management and authors for consideration.

Commission outputs and the work of the Federal Parliament

The inquiries and reports which figured most prominently in federal parliamentary debate during 2008-09 were the Commission's reports on the *Disability Discrimination Act 1992*, aged care trends, paid parental leave and the role of policies to supplement an emissions trading scheme. As noted in chapter 2, 84 Members of the House of Representatives and 30 Senators collectively referred to 38 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2008-09 parliamentary proceedings.

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

- Seventeen parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The 27 recent parliamentary committee reports listed in table B.1 referred to 22 different Commission outputs.
- People appearing at the hearings of parliamentary committees in 2008-09 referred to Commission outputs in more than 40 different topic areas.
- Research material provided to parliamentarians during 2008-09 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 22 different Commission outputs (table B.2). These included 16 inquiry and other commissioned research reports, the Report on Government Services, several research papers and workshop and roundtable proceedings and the Commission's 2008 submission to the Garnaut Climate Change Review. Considerable use of Commission outputs was also apparent within the Library's *Budget Review 2009-10*.

Use of Commission Reports by the Audit Office

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2008-09 the ANAO cited analysis and a number of findings from Commission work on the textiles, clothing and footwear industries in Audit

Report No. 10, *Administration of the Textile, Clothing and Footwear Post-2005 (SIP) Scheme*. This included use of the Commission's 2003 review of TCF assistance, its 2008 modelling of the economy-wide effects of future assistance and the *2006-07 Trade and Assistance Review*. The ANAO drew on findings in the Commission's 2005 report on Australia's health workforce, and on analysis in the Chairman's recent speech on evidence-based policy making, in Audit Report No. 26, *Rural and Remote Health Workforce Capacity. Analysis* ; and findings from the 2008 report on aged care trends were used in Audit Report No. 40, *Planning and Allocating Aged Care Places and Capital Grants*.

Other Commission outputs referred to in ANAO reports in 2008-09 were the 2008 and 2009 *Report on Government Services* and the inquiry report on waste management.

Estimates appearances

The Commission is also invited to appear regularly before Senate Estimates to assist the work of Federal Parliament and facilitate scrutiny of its work. It was requested to attend Senate Estimates hearings on two occasions in 2008-09. Appearances by the Chairman and senior staff before the Senate Standing Committee on Economics occurred on 23 October 2008 and 4 June 2009. Hansard of the appearances is available on the Parliament of Australia website.

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Standing Committee on Economics, Tax Laws Amendment (<i>Medicare Levy Surcharge Thresholds</i>) Bill 2008, August 2008	Annual Report Series, <i>Trade & Assistance Review 2006-07</i>
Senate Standing Committee on Community Affairs, <i>National Health Amendment (Pharmaceutical and Other Benefits—Cost Recovery) Bill</i> 2008, August 2008	Inquiry Report, <i>Cost Recovery by Government Agencies</i> , March 2002
Senate Standing Committee on Economics, <i>Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill</i> 2008, September 2008	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
Senate Standing Committee on Environment, Communications and the Arts, <i>Management of Australia's Waste Streams (including consideration of the Drink Container Recycling Bill</i> 2008), September 2008	Inquiry Report, <i>Waste Management</i> , October 2006
Senate Select Committee on State Government Financial Management, <i>Select Committee on State Government Financial Management: Report</i> , September 2008	Research Paper, <i>Financial Performance of Government Trading Enterprises 2004 to 2006</i> , June 2008
Senate Standing Committee on Rural and Regional Affairs and Transport, <i>Implementation, operation and administration of the legislation underpinning Carbon Sink Forests</i> , September 2008	Annual Report Series, <i>Trade & Assistance Review 2006-07</i>
House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, <i>Open for Business: Developing Indigenous enterprises in Australia</i> , October 2008	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2007</i> , June 2007
Senate Standing Committee on Community Affairs, <i>Poker Machine Harm Reduction Tax (Administration) Bill</i> 2008; <i>Poker Machine Harm Minimisation Bill</i> 2008; <i>ATMs and Cash Facilities in Licensed Venues Bill</i> 2008, November 2008	Inquiry Report, <i>Australia's Gambling Industries</i> , November 1999
House of Representatives Standing Committee on Infrastructure, Transport, Regional Development & Local Government, <i>Funding regional and local community infrastructure: Proposals for the new Regional and Local Community Infrastructure Program</i> , Interim Report, November 2008	Research Report, <i>Assessing Local Government Revenue Raising Capacity</i> , April 2008

Senate Standing Committee on Community Affairs, <i>Aged Care Amendment (2008 Measures No. 2) Bill 2008 [Provisions]</i> , November 2008	Commission Research Paper, <i>Trends in aged care services: some implications</i> , September 2008
Senate Standing Committee on Economics, <i>Lost in Space? Setting a new direction for Australia's space science and industry sector</i> , November 2008	Research Report, <i>Public Support for Science and Innovation</i> , March 2007
House of Representatives Standing Committee on Economics, <i>Competition in the banking and non-banking sectors</i> , November 2008	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
Senate Standing Committee on Economics, <i>Australia's mandatory Last Resort Home Warranty Insurance scheme</i> , November 2008	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
Senate Standing Committee on Rural and Regional Affairs and Transport, Interstate Road Transport Charge Amendment Bill (No. 2) 2008 [Provisions]; Road Charges Legislation Repeal and Amendment Bill 2008 [Provisions], November 2008	Inquiry Report, <i>Road and Rail Freight Infrastructure Pricing</i> , December 2006
Senate Standing Committee on Community Affairs, <i>Government expenditure on Indigenous affairs and social services in the Northern Territory</i> , December 2008	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2007</i> , June 2007; Steering Committee for the Review of Government Service Provision, <i>Report on Government Services Provision 2008, Indigenous Compendium</i> , April 2008
House of Representatives Standing Committee on Industry, Science and Innovation, <i>Building Australia's Research Capacity</i> , December 2008	Research Report, <i>Public Support for Science and Innovation</i> , March 2007
Senate Standing Committee on Economics, <i>The need, scope and content of a definition of unconscionable conduct for the purposes of Part IVA of the Trade Practices Act 1974</i> , December 2008	Inquiry Report, <i>The Market for Retail Tenancy Leases in Australia</i> , August 2008
Senate Standing Committee on Economics, <i>Disclosure regimes for charities and not-for-profit organisations</i> , December 2008	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2007</i> , June 2007

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Table B.1 (continued)

Parliamentary Committee and report	Commission output used
Senate Standing Committee on Legal and Constitutional Affairs, <i>Effectiveness of the Sex Discrimination Act 1984 in eliminating discrimination and promoting gender equality</i> , December 2008	Draft Inquiry Report, <i>Paid Parental Leave: Support for Parents with Newborn Children</i> , September 2008
Joint Committee on Corporations and Financial Services, <i>Opportunity not opportunism: improving conduct in Australian franchising</i> , December 2008	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
Senate Standing Committee on Economics, <i>Exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme</i> , April 2009	Roundtable proceedings, <i>Promoting Better Environmental Outcomes</i> , August 2008
Senate Standing Committee on Finance and Public Administration, <i>Residential and Community Aged Care in Australia</i> , April 2009	Inquiry Report, <i>Nursing Home Subsidies</i> , March 1999; Commission Research Paper, <i>Trends in aged care services: some implications</i> , September 2008
Senate Select Committee on Fuel and Energy, <i>The CPRS: Economic cost without environmental benefit</i> . Interim report, May 2009	Submission, <i>Submission to the Prime Ministerial Task Group on Emissions Trading</i> , March 2007; Submission, <i>What Role for Policies to Supplement an Emissions Trading Scheme?</i> , Submission to the Garnaut Climate Change Review, May 2008
Senate Community Affairs Legislation Committee, <i>Health Workforce Australia Bill 2009 [Provisions]</i> , June 2009	Research Report, <i>Australia's Health Workforce</i> , December 2006
Senate Economics Legislation Committee, <i>Carbon Pollution Reduction Scheme Bill 2009 and related bills [Provisions]</i> , June 2009	Annual Report Series, <i>Trade & Assistance Review 2007-08</i>
Senate Education, Employment and Workplace Relations References Committee, <i>DEEWR tender process to award employment services contracts</i> , June 2009	Inquiry Report, <i>Independent Review of the Job Network</i> , June 2002
Senate Select Committee on Regional and Remote Indigenous Communities, <i>Second report 2009</i> , June 2009	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2007</i> , June 2007; Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2009</i> , January 2009

Table B.2 Parliamentary Library use of Commission outputs in 2008-09

Parliamentary Library output 2008-09	Commission output used
<i>AusLink (National Land Transport) Amendment Bill 2008</i> , Bills Digest No 13, September 2008	Inquiry Report, <i>Road and Rail Freight Infrastructure Pricing</i> , December 2006
<i>Broadcasting Legislation Amendment (Digital Television Switch-over) Bill 2008</i> , Bills Digest No. 35, October 2008	Inquiry Report, <i>Broadcasting</i> , March 2000
<i>Trade Practices Amendment (Clarity in Pricing) Bill 2008</i> , Bills Digest No 38, October 2008	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
<i>Water Amendment Bill 2008</i> , Bills Digest No 45, October 2008	Staff Working Paper, <i>Modelling water trade in the southern Murray-Darling Basin</i> , November 2004
<i>Aged Care Amendment (2008 Measures No. 2) Bill 2008</i> , Bills Digest No 56, November 2008	Commission Research Paper, <i>Trends in aged care services: some implications</i> , September 2008
<i>Current legal issues in franchising in Australia</i> , Background Note, November 2008.	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , April 2008
<i>Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09</i> , Bills Digest No 61, November 2008	Inquiry Report, <i>First Home Ownership</i> , March 2004
<i>Commonwealth involvement in reform of the rail freight industry</i> , Research Paper, January 2009	Inquiry Report, <i>Progress in Rail Reform</i> , August 1999; Inquiry Report, <i>Review of National Competition Policy Reforms</i> , February 2005; Inquiry Report, <i>Road and Rail Freight Infrastructure Pricing</i> , December 2006
<i>Corporations Amendment (No. 1) Bill 2008</i> , Bills Digest No 75, January 2009	Research Report, <i>Review of Mutual Recognition Schemes</i> , January 2009
<i>Disability Discrimination and Other Human Rights Legislation Amendment Bill 2008</i> , Bills Digest No 87, February 2009	Inquiry Report, <i>Review of the Disability Discrimination Act 1992</i> , April 2004
<i>Trade Practices Amendment (Cartel Conduct and Other Measures) Bill 2008</i> , Bills Digest No 90, February 2009	Inquiry Report, <i>Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping</i> , February 2005; Inquiry Report, <i>Telecommunications Competition Regulation</i> , September 2001

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Table B.2 (continued)

<i>Parliamentary Library output 2008-09</i>	<i>Commission output used</i>
<i>Options for reforming Australia's health system, Background Note, February 2009</i>	<i>Workshop Proceedings, Managed Competition in Health Care, August 2002</i>
<i>Child abuse and protection in Australia, Background Note, March 2009</i>	<i>Steering Committee for the Review of Government Service Provision, Report on Government Services 2009, January 2009</i>
<i>The interim report of the National Health and Hospitals Reform Commission—a summary and analysis, Research Paper, March 2009</i>	<i>Commission Research Paper, Trends in Aged Care Services: some implications, September 2008; Research Report, Australia's Health Workforce, December 2006</i>
<i>Commonwealth Arts Policy and Administration, Background Note, May 2009</i>	<i>Issues Paper, Copyright Restrictions on the Parallel Importation of Books, November 2008</i>
<i>Offshore Petroleum and Greenhouse Gas Storage Legislation Amendment Bill 2009, Bills Digest No 133, May 2009</i>	<i>Research Report, Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector, April 2009</i>
<i>Health Workforce Australia Bill 2009, Bills Digest No 142, May 2009</i>	<i>Research Report, Australia's Health Workforce, December 2006</i>
<i>Budget Review 2009-10, Research Paper No 33, May 2009</i>	<i>Research Report, Review of the Australian Consumer Product Safety System, January 2006; Inquiry Report, Review of Australia's Consumer Policy Framework, April 2008; Inquiry Report, Government Drought Support, February 2009; Inquiry Report, Paid parental leave: support for parents with newborn children, February 2009</i>
<i>Renewable Energy (Electricity) Amendment Bill 2009, Bills Digest No 182, June 2009</i>	<i>Submission to the Garnaut Climate Change Review, What Role for Policies to Supplement an Emissions Trading Scheme?, May 2008</i>
<i>Does the Commonwealth have constitutional power to take over the administration of public hospitals?, Research Paper No 36, June 2009</i>	<i>Roundtable proceedings, Productive reform in a federal system, October 2005</i>

Other evidence

In addition to the performance indicators for 2008-09 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In discussing paid parental leave on 24 February 2009, the Prime Minister stated:

... what we said was we would look at the Productivity Commission report – it's due soon - and that we'd consider it in the budget context. That is the right way to do public policy. (Rudd and Gillard 2009)
- In August 2008, the then Minister for Small Business, Independent Contractors and the Service Economy, Craig Emerson, said that:

The Productivity Commission has a distinguished record in providing impartial, economically rigorous advice and continues to make an indispensable contribution to Australian public policy debate. (Emerson 2008)
- During the year COAG requested that the Commission undertake several new inquiries and studies to assist it with its work. These included reviews of Australia's anti-dumping system, the parallel import restrictions on books and a national review of Australia's gambling industries.
- Additional funding was also announced in the 2009-10 Budget for the Commission's role in implementing the COAG Federal Financial Framework. The accompanying Budget Measure stated that the Commission's contribution will support the COAG reform agenda by:
 - helping to inform governments and the community about the magnitude and distribution of reform impacts and benefits, and the state-of-play in implementing reforms;
 - providing timely, accurate and meaningful performance information to inform analysis by the CRC and public accountability of governments for SPP outcomes under the new National Agreement framework; and
 - facilitating the measurement of the cost-effectiveness of Indigenous programs, through a national framework for reporting expenditure on Indigenous services, as a means of informing better policy making in Indigenous affairs.

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- In May 2009, the OECD stated that the Commission ‘is viewed as an authoritative non-partisan well-resourced body. Its recommendations carry weight with all Australian governments and all sides of politics.’ (OECD 2009b, p. 51)
 - The Australian Government announced in December 2008 that as part of its Carbon Pollution Reduction Scheme (CPRS) the Commission would be tasked with undertaking assessments of industry claims for compensation (Australian Government 2008b). It also subsequently announced in May 2009 that, as part of the CPRS, the Commission would be required to provide analysis of quantitative measures of carbon prices or shadow carbon prices in major economies (Rudd, Swan and Wong, 2009).
 - The final report of the Mortimer review of export policies and programs, delivered in September 2008, endorsed ‘the contribution of the Commission in providing rigorous analysis across a wide range of economic, social and environmental matters’ (Mortimer 2008, p. 65). It also recommended that the Commission undertake more economic analysis and advice on export and investment issues as a matter of priority (p. 3), and that its current work on regulation be extended to include analysis of the regulatory burdens on exports and the scope for reform (p. 71).
 - The Northern Territory Emergency Response Review Board called in October 2008 for the Commission to be asked to conduct a comprehensive review of future expenditure required to address unmet service needs and infrastructure backlogs in remote communities. The Board stated that, in its view, the Commission was a logical choice to undertake this task given its central role in preparing the *Overcoming Indigenous Disadvantage* report and given its ‘long-established credibility and independence’ (NTER Review Board 2008, p. 53).
 - The announcement of the Commission’s inquiry into executive remuneration in March 2009 was welcomed by various groups, including the Business Council of Australia, the Australian Shareholders Association, Regnan Governance Research and Management, Woolworths Pty Ltd, the Finance Sector Union and the Australian Human Resources Institute. In discussing the inquiry in Parliament on 24 June 2009, the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen, described the Commission as:

... a well-respected instrumentality which is well placed to consider all the issues and bring down a measured and balanced report which the government will then consider.
 - As part of its Social Inclusion Agenda, the Government announced in March 2009 that the Commission would undertake a study of the community sector in Australia to better understand the contribution it makes and to also identify

opportunities for productivity gains in the sector (Gillard, Bowen and Stephens 2009).

- The Federal Opposition proposed a number of tasks for the Commission during the year, including that it:
 - be asked to inquire into the design and efficacy of the Carbon Pollution Reduction Scheme and to assess its impact on jobs, regions and agriculture (Senate Economics Legislation Committee 2009);
 - conduct a review of the effectiveness and efficiency of the Government's deposit guarantee measures, not later than three years after they were introduced (Turnbull 2008);
 - produce annual reports on the infrastructure projects approved under the *Nation-Building Funds Act 2008* (Robb 2008); and
 - undertake a broad-ranging inquiry into Australia's broadband market, including to examine the broadband market in Australia, identify any evidence of market failure, consider all options to address any market failure and recommend the most cost-effective solutions (Minchin 2009).

- A report on international institutions and policy transparency, prepared for the Rural Industries Research and Development Corporation in July 2008, found that:

Australia, through its Productivity Commission, is the standout example of good policy transparency. The Commission is independent and has a reputation for producing high quality credible reports. (Stoeckel and Fisher 2008)

In launching the report, the then Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, Chris Bowen, stated that the report 'highlights that when the public is informed of the true costs and benefits of particular policy decisions, the national interest is best served.' (Bowen 2008c)

- There were a number of calls during the year for the Commission to be asked to inquire into childcare or children's services, including from Professor Deborah Brennan of the University of New South Wales and from the National Foundation for Australian Women.
- In May 2009 the terms of reference for the Senate Select Committee Inquiry on the National Broadband Network required that the Commission be requested to provide a formal submission, along with the Australian Competition and Consumer Commission, Infrastructure Australia, the Department of the Treasury, the Department of Finance and Deregulation, and the Department of Infrastructure, Transport, Regional Development and Local Government.

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- Throughout the year various peak bodies continued to call for the Commission to be requested to undertake a diverse range of work. For example:
 - In October 2008 the Australian Chamber of Commerce and Industry called for a Commission review of the Horizontal Fiscal Equalisation (HFE) formula used to distribute Commonwealth funding to state and local governments (ACCI 2008).
 - The Business Council of Australia (2008b) called for the Commission to be tasked with conducting regular independent audits of current infrastructure capacity.
 - The Property Council of Australia called on the Commission to be tasked with developing a standard format for reporting by local government as part of a package of proposed reforms to modernise the Australian federation (Property Council of Australia 2009).
 - In June 2009 the Institute of Company Directors called for the Commission to undertake a detailed scrutiny of draft legislation on reforms to executive remuneration. The Institute’s spokesman, John Colvin, stated:

If they’re really looking to have good policy, then it’s an ideal opportunity to refer this draft legislation to the Productivity Commission which will look at these arguments and issues, and they can be tested on a proper basis. And then we’ll get good legislation and good outcomes and good policy.
 - In May 2009 the Australian Internet Bookmakers Association called for the Commission to be asked to examine issues around product fees and the funding of the racing industry (Thomas 2009).
 - Speaking after the release of the Commission’s final report on drought policy, the Minister for Agriculture, Tony Burke, described the report as a ‘good down payment’ on achieving a ‘common sense’ outcome.’ (McKenzie 2009)
 - In June 2009 the prospect of a possible Commission study on water buybacks was welcomed by Dr Arlene Buchan of the Australian Conservation Foundation, who stated:

... personally I think that almost more important (than other measures introduced as part of the Water Entitlement Buyback) is the Productivity Commission inquiry, through which the government has committed to looking at the best way...to recover water in the Murray-Darling Basin. (Senate Rural and Regional Affairs and Transport References Committee 2009, p. 63)
 - On 16 June 2009, during a speech at the National Press Club, Foxtel CEO Kim Williams called for a review of media regulation and stated:

It is a review that in my view can only be conducted by the Productivity Commission – the most disciplined, authoritative and independent agency for undertaking such a far reaching piece of review in the context of the national economy, competition, consumer interests and relevant legislative and regulatory settings. (quoted in Schulze 2009)

- In January 2008 the Australian Government committed to a national framework for reporting expenditure on Indigenous services, and committed to consult with agencies, including the Commission, in developing the national framework. The Productivity Commission assumed Secretariat responsibilities for the Indigenous Expenditure Report Steering Committee from November 2008.
- When introducing legislation to implement a single national consumer law on 24 June 2009, the Minister for Competition Policy and Consumer Affairs, Craig Emerson, stated:

In undertaking this task, the Government has benefited from the work of the Productivity Commission, which identified the solutions that we are now implementing... In 2007 and 2008 the Productivity Commission reviewed Australia's consumer policy framework. And, in May 2008, my predecessor, the now Minister for Financial Services, Superannuation and Corporate Law and Minister for Human Services, tabled in Parliament the Commission's comprehensive Final Report and recommendations. These have provided the government with a detailed roadmap for consumer policy reform.

- In October 2008 Senator Nick Xenophon endorsed the Commission's role in undertaking a review of public and private hospital performance, stating:

...I think that that will stand the health system in good stead to have the Productivity Commission having a robust look at this... And I think it will be very useful in terms of the long term planning of our health system so that we can get the best outcome and the best balance between the public and private systems. (quoted in Roxon 2008)

- Senator Xenophon also called for the Commission to be tasked with a number of other reviews during the year, including that it be required to prepare annual reports on the operation of the *Water Act 2007*, that it be asked to model alternative emissions trading schemes, and that it be asked to conduct a study into alternative market mechanisms for recovering water in the Murray-Darling Basin.
- Parliamentary Committees continued to draw on Commission reports to inform their work and to recommend new work for the Commission. For example:
 - In its inquiry into the DEEWR tender process to award employment services contracts, the Senate Education, Employment and Workplace Relations References Committee (2009, p. 52) recommended in June 2009 that the Commission be asked to inquire into the design of such processes.

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- A report provided in January 2009 to the Senate Select Committee on Fuel and Energy by Dr Brian Fisher of Concept Economics recommended that the Commission be asked to formally review the Government’s ETS against Best Practice Regulation Guidelines (Senate Select Committee on Fuel and Energy 2009, p. 68).
 - In April 2009 the Senate Standing Committee on Finance and Public Administration report on residential and community aged care in Australia recommended that the Commission’s views, concerns and recommendations be considered as part of any broader review into aged care (Senate Standing Committee on Finance and Public Administration 2009, p. xii).
 - Research on food and fibre supply chains by the Rural Industries Research and Development Corporation (Ecker 2008) drew on analysis from the Commission’s 2005 report on trends in agriculture (PC 2005e). It also noted that the Commission was, in the view of farmers, a key source of support and influence via its provision of information on the agricultural sector (p. 74).
 - A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including the absolute competitiveness of key markets; Australia’s funding of health care; the *Trade Practices Act 1974*, the design of tender processes for job services; the current broadband network and possible improvements; the cost of diabetes to the health system and the wider community; the level and determinants of remuneration for school teachers; the real economic costs of policing the use of illicit drugs; private health insurance; the viability of various forms of national feed-in tariffs; Australia’s redundancy arrangements; and the effects of award modernisation on job creation and employment.
 - General endorsement of the Commission’s role and work can also be found in various proposals for new agencies to be modelled on it. For example:
 - There was continued interest in New Zealand in 2008-09 in the establishment of a body with functions similar to the Commission. On 16 July 2009 a joint press release by Treasurer Wayne Swan and New Zealand Finance Minister Bill English stated that:

New Zealand is also currently investigating the merits of establishing a Productivity Commission and in doing so has looked closely at the model provided by the Australian Productivity Commission. (Swan and English 2009)
 - In discussing regulatory reform in Australia in April 2009, the OECD Working Party on Regulatory Management and Reform described the Commission as ‘an important part of the institutional architecture for

regulation reform in Australia’ and suggested that it ‘provides a model with many features that could usefully be emulated outside Australia in other OECD countries’. (OECD 2009a, p. 13)

Citations in journals and elsewhere

In addition to the parliamentary, media and other coverage reported elsewhere in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of over 130 mentions of the Commission and its reports in 2008-09 in a range of journals and other publications. These covered almost 70 different reports, papers, speeches and work in progress. Only 5 per cent of total mentions were in relation to inquiries and commissioned studies current in 2008-09, with the majority of mentions referring to earlier commissioned studies. These included the health workforce (2006) and Australia’s consumer policy framework (2008). The annual Report on Government Services from various years and the *Overcoming Indigenous Disadvantage* reports also received a considerable number of mentions. The Commission’s work was cited in around 88 different journals and publications. Its work was cited mostly in the *Medical Journal of Australia*, the *Environmental and Planning Law Journal* and the *Economic Papers*. Mentions in medical or health-related journals accounted for around 20 per cent of total mentions, while over 17 per cent of mentions were in law-related journals.

Output 1: Government-commissioned projects

These projects are major tasks commissioned or formally requested by the Australian Government. They encompass the conduct of public inquiries, case studies, program evaluations, taskforces and commissioned research projects. They typically involve extensive public consultation. The Commission can also be asked to assist policy development processes by undertaking technical modelling exercises of policy initiatives under consideration by the Government.

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

The resources used in producing this output in 2008-09 were:

- 99 staff years
- \$21.7 million on an accrual basis.

All government-commissioned inquiries in 2008-09 were conducted by the Commission in accordance with statutory processes which set requirements for public hearings, submissions and the use of economic models.

Activities in 2008-09

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

During 2008-09 the Commission:

- completed two public inquiries begun in 2007-08 — on paid parental leave and government drought support
- commenced three other new public inquiries, which are due for completion in 2009-10, on Australia's gambling industries, executive remuneration and anti-dumping.

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

Month	2007-08					2008-09												2009-10					
	J	F	M	A	M	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Public inquiries:																							
Consumer policy framework																							
Market for retail tenancy leases in Australia																							
Safeguards inquiry into the import of pigmeat																							
Paid maternity, paternity and parental leave																							
Government drought support																							
Gambling																							
Executive remuneration																							
Anti-dumping																							
Wheat export marketing arrangements																							
Commissioned research studies:																							
Economy-wide effects of future automotive assistance																							
Economy-wide effects of future TCF assistance																							
Chemicals and plastics regulation																							
Review of regulatory burdens on business – Stage 2																							
Business regulation benchmarking – Stage 2																							
Review of mutual recognition schemes																							
Regulation burden on upstream petroleum																							
Restrictions on the parallel importation of books																							
Review of regulatory burdens on business – Stage 3																							
Business regulation benchmarking – Stage 3																							
Contribution of the Not for Profit sector																							
Performance of public & private hospital systems																							
Mechanisms to purchase water entitlements																							

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

Research studies commissioned by the Government were a significant component of the Commission’s workload in 2008-09 (figure 2.1). During the year the Commission:

- finalised five government-commissioned research studies begun the previous year — a study of chemicals and plastics regulation, the second stages of the reviews of regulatory burdens on business and business regulation benchmarking, a review of mutual recognition schemes and a study on the regulatory burden in the upstream petroleum sector
- commenced and completed a six month study of the restrictions on the parallel importation of books into Australia

- commenced four other new studies — the third stages of a review of regulatory burdens on business and a benchmarking study on business regulation; and studies on the contribution of the not-for-profit sector and the performance of public and private hospital systems.

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

Table B.4 Public inquiry and other commissioned project activity, 2004-05 to 2008-09

<i>Indicators</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
Public inquiries					
Inquiry references received	4	4	2	3	3
Issues papers released	3	4	2	1	3
Public hearings (sitting days) ^a	26	26	28	28	17
Organisations/people visited	167	151	134	124	205
Submissions received	623 ^c	654	422	720	749
Draft reports ^b	5	2	3	2	2
Inquiry reports completed	4	2	4	3	2
Inquiries on hand (at 30 June)	2	4	2	2	3
Research studies					
References received	3	4	3	7	5
Submissions received	253	608	485 ^d	262	972
Draft reports ^b	4	4	3	4	6
Research reports completed	3	4	4	4	7 ^e
Studies on hand (at 30 June)	3	3	2	5	5
Total references					
Total references received	7	8	5	10	8
Total references completed	7	6	8	7	8
Total references on hand (at 30 June)	5	7	4	7	8

^a Excludes forums and roundtable discussions. ^b Includes all types of draft reports. ^c Includes 130 submissions accepted on a commercial-in-confidence basis in the smash repair and insurance inquiry. ^d Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation. ^e Total includes two final reports completed as part of the study on business regulation benchmarking.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the eight inquiries and government-commissioned research studies completed in 2008-09 are shown in table B.5.

Table B.5 Cost of public inquiries and other commissioned projects completed in 2008-09^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Paid parental leave	1 486
Government drought support	1 459
Chemicals and plastics regulation	1 674
Review of regulatory burdens on business — Stage 2	1 580
Performance benchmarking of Australian business regulation — Stage 2 ^b	2 285
Review of mutual recognition schemes	1 132
Regulatory burden on upstream petroleum	1 160
Restrictions on the parallel importation of books	985

^a Includes estimated overheads. ^b Includes two reports.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 2004-05 to 2008-09 are shown in table B.6.

Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for on-site consultations with participants and the State and Territories, the costs of any consultancies (including those arising from the statutory requirements relating to the use of economic models), and printing costs and the duration of the inquiry or project.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 2004-05 to 2008-09

<i>Expenditure item</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	343	382	478	394	546
Printing	125	151	132	108	133
Consultants	32	103	40	402	82
Other ^b	194	311	291	208	251
Total	693	946	942	1 112	1 012

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

Consultative processes

The practice of consulting widely with government departments and agencies, professional and industry organisations, academics and the broader community during inquiries and government-commissioned research projects continued in 2008-09.

In the course of its inquiry work over the year, the Commission held 17 public hearings, visited more than 200 individuals and organisations and received more than 740 submissions. The Commission encourages broad public participation in its inquiry work, including by those in rural and regional areas. For example:

- In its study of restrictions on the parallel importation of books, the Commission sent circulars to a wide range of individuals and organisations thought to have an interest in the inquiry, including over 680 individuals and organisations who had registered a direct interest in the inquiry. It held initial meetings with a range of key stakeholders prior to release of an Issues Paper, including government departments, the Australia Council for the Arts, the Australian Booksellers Association, the Australian Publishers Association and the Australian Society of Authors, and met with over 80 interested parties across the course of the study. The Commission received 560 submissions in total, with 288 of these received in response to the Draft Report, and hosted 4 roundtables across two days following release of the Draft Report which were attended by over 50 participants including a range of publishers, authors, booksellers and printers.
- In the course of undertaking its inquiry into government drought support, the Commission undertook extensive consultations in rural and regional areas. Further details on these consultations are provided in Box 2.2.

The Commission adapts its consultative processes to suit the variety of research studies commissioned by the Government. For example:

- In conducting its review of the regulatory burden on the upstream petroleum sector, the Commission conducted around 40 visits, including site visits in Karratha and the North West Shelf as well as visits to key stakeholders located across six capital cities. The Commission also held six roundtables which were attended by around 35 parties, including petroleum producers, government regulators and other interested parties.
- Given the importance of trans-Tasman issues in its research study on Mutual Recognition Schemes, the Commission convened a total of six stakeholder roundtables in both Australia and New Zealand. This included two roundtables at the early stages of the study to publicise the review and canvass issues of

interest with stakeholders. The Commission also held a further set of roundtables in both Canberra and Wellington following the release of the draft report to obtain feedback on draft proposals, and conducted presentations and discussions on the scope and aims of the review to a range of government officials, including to members of the Cross Jurisdictional Review Forum. The Commission also visited a total of 59 organisations located in both Australia and New Zealand with an interest in the study.

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

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. On-line registration facilitates people notifying their interest in specific inquiries and studies and being kept informed of developments. In particular, participants' submissions to inquiries and studies and transcripts of hearings (other than confidential information) are placed on the Commission's website. Internet access has also increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 135 000 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2009.

Quality indicators

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

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

- In its study of restrictions on the parallel importation of books, the Commission hosted 4 roundtables across two days following release of the draft report which were attended by over 50 participants including a range of publishers, authors, booksellers and printers. The roundtables allowed industry participants to

discuss their views on the Commission's draft report and to provide further information to the Commission to assist its study.

- In its study on the regulatory burdens on business in the manufacturing sector and distributive trades, the Commission held 4 roundtables in mid July 2008 following the release of its draft report. These were attended by a range of stakeholders, including industry and regulator representatives, who were able to debate and exchange information to clarify the veracity of concerns. The roundtables also assisted the Commission in identifying several additional areas of concern that were subsequently incorporated into its final report.

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

Timeliness

Of the eight inquiries and commissioned research studies finalised in 2008-09, six were completed on or ahead of schedule. The original reporting period for the study of restrictions on the parallel importation of books was extended by approximately six weeks from the original date of 13 May 2009 to 30 June 2009 in view of the large number of submissions received following the release of the discussion draft. The review of mutual recognition schemes was extended by a total of approximately four weeks from the original date of 10 January 2009 to 6 February 2009. This extension was made necessary by the general election held in New Zealand on 8 November 2008 and resulting delays to the study's consultation processes.

Indicators of usefulness

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

Government responses

The Commission's impact on policy making is revealed most directly through government responses to, and decisions on, its reports. During the year the Australian Government announced its intention to introduce a Paid Parental Leave scheme that is closely based on that proposed in the Commission's final inquiry

report. In doing so the Government accepted the Commission's recommendations that such a scheme be financed by Government, that it should cover 18 weeks of leave and that in most cases employers should make the payments to their employees to ensure primary carers (predominantly women) stay connected with the workplace.

The Australian Government also accepted or expressed in principle agreement to a large majority of the recommendations or 'responses' in the Commission's reports on the regulatory burdens on business in the primary sector and the manufacturing sector and the distributive trades.

COAG and Ministerial Council responses

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

- In July 2009, COAG signed an Intergovernmental Agreement, which included agreement to a national consumer protection law, in line with recommendations made by the Commission in its *Review of Australia's Consumer Policy Framework*. (COAG 2009b)
- At its meeting on 29 November 2008, COAG agreed to a new governance structure to oversee chemicals and plastics regulatory reform as proposed in the Commission's final report on *Chemicals and Plastics Regulation*, including the establishment of a COAG Standing Committee on Chemicals (COAG 2008d). At the same meeting COAG also agreed to an interim response to the recommendations in the Commission's report (COAG 2008e). Of the 30 recommendations responded to, COAG welcomed or supported 20 and noted progress on the remaining recommendations.

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

Further evidence of usefulness

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

- Commission reports were used to inform the work of COAG's Business Regulation and Competition Working Group during the year, including reports on the health workforce, retail tenancy, chemicals and plastics regulation, upstream petroleum regulation and consumer policy (COAG and BRCWG 2009b).
- In discussing the Commission's report on upstream petroleum regulation in August 2009, the Minister for Resources and Energy, Martin Ferguson, said that:
The Commonwealth is minded to support all the recommendations of the Productivity Commission report with a view to reducing regulatory approval timeframes and creating consistency in administration nationally. (Ferguson 2009)
- On 3 December 2008, the Australian Government introduced the *Disability Discrimination and Other Human Rights Legislation Amendment Bill 2008*. The Bill, which was subsequently passed by Parliament, implemented recommendations made by the Commission in its 2004 review of the *Disability Discrimination Act 1992*.
- Recommendations from the Commission's 2001 *Review of the National Access Regime* were used by the Australian Government when designing a package of reforms to the Regime (Bowen 2009).
- The Australian Securities and Investments Commission made extensive use of analysis and recommendations from the Commission's 2008 *Consumer Policy Framework* inquiry report when introducing changes to dispute resolution schemes in May 2009 (ASIC 2009).
- A consultation paper on the trading of radiofrequency licences, released by the Australian Communications Management Authority in November 2008 (ACMA 2008), made extensive use of the Commission's 2002 *Review of Radiocommunications Acts*.
- In September 2008, a Directions Paper put out by the Pharmaceutical Industry Strategy Group (2008) drew extensively on a range of Commission outputs on pharmaceuticals and the pharmaceutical industry. This included the Commission's 2003 *Evaluation of the Pharmaceutical Industry Investment Program* and the 2007 report on *Science and Innovation*.

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- In May 2009 the Attorney General's Department released a committee report on the operation of the *Legislative Instruments Act 2003* (Blunn, McMillan and Govey 2009). The Committee noted that its recommendations concerning standards drew on those in the Commission's 2006 report on *Standard Setting and Laboratory Accreditation*.
 - In September 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government, Anthony Albanese, drew on the Commission's 2007 inquiry report on *Road and Rail Freight Infrastructure Pricing* when discussing possible improvements in the road freight industry (Albanese 2008).
 - A report by the Australian Energy Regulator on the state of the energy market drew on Commission inquiry reports on consumer policy and the *Review of the Gas Access Regime* when discussing the state of the energy market (Australian Energy Regulator 2008).
 - A September 2008 report by the Regional Telecommunications Independent Review Committee on the future framework for regional telecommunications drew on a number of Commission reports, including the 2008 consumer policy inquiry and the 2001 inquiry into *Telecommunications Competition Regulation*.
 - In May 2009 the Independent Pricing and Regulatory Tribunal (NSW) published the final report of its Review of NSW Climate Change Mitigation Measures (IPART 2009). The report drew on a number of past Commission reports in the area, including the Commission's 2005 inquiry on energy efficiency. A further report by IPART (2008) on performance improvement in the health sector drew on a range of Commission outputs including the 2005 medical technology study and the 2006 study on potential benefits of the NRA.
 - The final report of the Cutler review of innovation, *Venturous Australia* (Cutler and Company Pty Ltd 2008), drew on a wide range of Commission outputs, including the Commission's study of *Science and Innovation* and its inquiry on National Competition Policy reforms.
 - On 29 June 2009 the interim report of the review by Dr Allan Hawke of the *Environment Protection and Biodiversity Conservation Act 1999* drew on a number of Commission reports, including the 2009 *Review of the Regulatory Burden in the Upstream Petroleum Sector* and the 2004 inquiry into *Native Vegetation and Biodiversity Regulations*.

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- In December 2008 and June 2009 estimates of the cost of a foot and mouth disease outbreak in Australia, produced by the Commission in 2002, were used when discussing the possible costs of such an outbreak (Skuthorp 2008; McNaughton 2009). These estimates were also referred to in September 2008 by the Independent Review of Australia's Quarantine and Biosecurity Arrangements, which also recommended that the National Biosecurity Commission should 'develop a close working relationship with the Productivity Commission, the Australian Bureau of Agricultural and Resource Economics or other suitable agencies' (Beale et al. 2008, p. XXXVII).
 - A report prepared in May 2009 by the Centre for International Economics for the Department of Foreign Affairs and Trade on the benefits of trade and trade liberalisation drew on Commission work on effective rates of assistance and automotive assistance.
 - A consultation paper on energy efficiency for commercial buildings, released by the Department of the Environment, Water, Heritage and the Arts in December 2008 (DEWHA 2008), drew on the Commission's 2000 inquiry report on the architecture profession and the 2005 inquiry on energy efficiency.

Table B.7 Impact of Commission inquiry reports on policy making^a

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

(continued on next page)

Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
10 Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. The report remains a major reference point in community discussion of gambling issues in Australia.
11 Broadcasting (March 2000)	The Government did not formally respond to the report. Nevertheless, the report is still referred to in parliamentary and wider community debate on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and policy analysts and the media continue to cite it regularly. The Government made some references to the report when introducing its Broadcasting Services Amendment (Media Ownership) Bill 2006.
12 Review of Australia's General Tariff Arrangements (July 2000)	In December 2000 the Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system. In its 2005-06 Budget, the Government announced removal of the 3 per cent tariff applying to business inputs imported under a tariff concession order, effective from 11 May 2005.
13 Review of Legislation Regulating the Architectural Profession (August 2000)	Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession.
14 Review of the Prices Surveillance Act (August 2001)	While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission.
15 Cost Recovery by Government Agencies (August 2001)	The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response.

- 16 Telecommunications Competition Regulation (September 2001)
 The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes.
- 17 Review of the National Access Regime (September 2001)
 The Government endorsed the majority of the Commission's recommendations on the national access regime, in particular the provision of clearer directions to regulators and greater certainty for investors.
- 18 Review of Certain Superannuation Legislation (December 2001)
 The Government agreed that legislative changes were needed to reduce compliance costs, would implement a number of Commission recommendations and further examine others, but did not accept proposed reforms to institutional arrangements for handling complaints. In a subsequent response to a report by the Superannuation Working Group, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement.
- 19 Price Regulation of Airport Services (January 2002)
 The Government supported all of the major elements of the Commission's preferred approach for a light-handed regulatory regime, involving a 'probationary' period of price monitoring.
- 20 Citrus Growing and Processing (April 2002)
 The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. It subsequently endorsed all of the Commission's recommendations covering trade negotiations, market access arrangements, export control arrangements and review, and industry compliance costs.
- 21 Independent Review of the Job Network (June 2002)
 The Government stated the report was a significant and authoritative examination of the Job Network and agreed with a number of Commission recommendations. It had already changed the design of some Job Network features on the basis of the Commission's draft report. However, the Government did not support some key Commission recommendations at present, but would give consideration to them as employment services policy evolves.
- 22 Radiocommunications (July 2002)
 The Government accepted most of the Commission's recommendations but would further consider whether spectrum licences should be issued in perpetuity and some other matters. Six recommendations were rejected, the most significant of which dealt with changes to competition rules and ministerial discretion on limits to spectrum acquisition in auctions.

(continued on next page)

Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
23 Review of Section 2D of the Trade Practices Act 1974: Local Government Exemptions (August 2002)	The Government accepted the Commission's recommendation that section 2D be repealed and replaced with a section stating explicitly that Part IV of the Trade Practices Act only applies to the business activities of local government.
24 Economic Regulation of Harbour Towing and Related Services (August 2002)	The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.
25 Review of Automotive Assistance (September 2002)	The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.
26 Review of TCF Assistance (July 2003)	The Government accepted the Commission's preferred tariff option and quantum of transitional assistance, though with some variations in the components of that support package.
27 National Workers' Compensation and Occupational Health and Safety Frameworks (March 2004)	<i>The Government initially did not support key elements of the Commission's proposed national framework model and deferred consideration of recommendations relating to design elements for workers' compensation schemes and OHS pending advice from a new tripartite body, the Australian Safety and Compensation Council. Subsequently, the Government has expanded access to self-insurance arrangements for firms and enacted other legislative changes consistent with the Commission's recommendations.</i>
28 First Home Ownership (March 2004)	The Government supported recommendations relating to areas of State responsibility but not those relating to reviews of the personal income taxation regime and the housing needs of low income households nor changes to the First Home Owner Scheme.
29 Impacts of Native Vegetation and Biodiversity Regulations (April 2004)	The Government announced that it supported the Commission's recommendations and would pursue implementation by the States and Territories through the COAG process.
30 Review of the Disability Discrimination Act 1992 (April 2004)	The Government accepted a majority of the Commission's 32 recommendations in full, in principle or in part. Many of the Commission's most significant recommendations were adopted including legislative change to clarify the reasonable adjustment duty implied in the Act but, importantly, also to strengthen and/or extend existing safeguard mechanisms.

31	Review of the Gas Access Regime (June 2004)	The Ministerial Council on Energy supported the Commission's key recommendations.
32	Review of Part X of the <i>Trade Practices Act 1974</i> : International Liner Cargo Shipping (February 2005)	The Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.
33	Review of National Competition Policy Reforms (February 2005)	The Government stated that the response to the Commission's recommendations would be the outcome of COAG's review of national competition policy. COAG drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's National Reform Agenda reflect the Commission's recommendations and approach.
34	Smash Repair and Insurance (March 2005)	The Government agreed with the Commission's key recommendations on the development and nature of a voluntary code of conduct for the smash repair and insurance industries. A Motor Vehicle Insurance and Repair Industry Code of Conduct commenced on 1 September 2006.
35	Australian Pigmeat Industry (March 2005)	The Government in effect endorsed the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.
36	The Private Cost Effectiveness of Improving Energy Efficiency (August 2005)	The Government has announced agreement with all of the Commission's recommendations and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis.
37	Conservation of Australia's Historic Heritage Places (April 2006)	While the Government agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. The Government also rejected recommendations that all levels of government recognise and separately fund the heritage responsibilities of non-heritage agencies as community service obligations and for transparency in reporting heritage-related expenditures and costs.
38	Waste Management (October 2006)	The Government endorsed the overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making but rejected the Commission's broad policy framework recommendations. The Commonwealth endorsed a range of other recommendations including those on the assessment of plastic bag regulation; the 2008 review of the National Packaging Covenant; avoidance of mandatory standards for recycled content in products; the supply of factually accurate, relevant and publicly accessible information on the risks, costs and benefits of waste management issues; and leaving the provision of waste-exchange services to private markets.

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Table B.7 (continued)

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

- 44 Safeguards Inquiry into the Import of Pigmeat (March 2008) A government response was tabled in Parliament on 4 June 2008. The response provided agreement or in-principle agreement to all of the Commission's recommendations. The response noted that the Commission's accelerated report found that provisional safeguard action could not be taken against pigmeat imports at that time. It further noted that the Commission's final report also found that safeguard action was not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. Accordingly, on 8 April 2008, the Government notified the WTO that the safeguards investigation had been terminated, and that it would not impose safeguard measures.
- 45 *Review of Australia's Consumer Policy Framework (May 2008)* In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the *Trade Practices Act 1974* and drawing on the recommendations of the Commission and best practice in State and Territory consumer laws. In addition, COAG is also reviewing occupational regulations only applying in one or two jurisdictions, which the Commission indicated warranted early attention. In accordance with a further Commission recommendation, on 22 July 2008 the Assistant Treasurer also announced changes to the configuration of the Commonwealth Consumer Affairs Advisory Council (CCAAC).
- 47 *Paid Parental Leave (February 2009)* *Legislation to fully implement the new consumer law (including new provisions based on best practice in existing State and Territory laws); and to implement the new national legislative and regulatory framework for product safety, will be introduced in early 2010.* As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme being introduced is closely based on that proposed in the Commission's final inquiry report. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.

^a Additions or significant changes to the table published in the 2007-08 Annual Report are indicated in italics.

A consultation paper released by the Henry Review of Taxation in December 2008 (The Treasury 2008a) drew on a range of Commission inquiry and study reports, including the 2004 inquiry First Home Ownership, the 2005 study *Economic Implications of an Ageing Australia* and the 2008 study of *Local Government Revenue Raising Capacity*.

- Reference during parliamentary proceedings to Commission inquiry reports and commissioned research studies completed in this and previous years is an indicator of their continuing usefulness to parliamentarians. For example:
 - Inquiries or commissioned research studies current in the year were referred to on 198 separate occasions by Members and Senators in the Federal Parliament in 2008-09. Commission inquiries and reports which featured most prominently in mentions were those on the *Disability Discrimination Act 1992*, paid parental leave, road and rail infrastructure pricing and consumer policy
 - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 131 occasions in 2008-09. Around 40 per cent of mentions were to the Report on Government Services, with the Commission's reports on consumer policy, the health workforce, the National Reform Agenda and paid parental leave also featuring prominently.
- Other examples of the use of Commission inquiry and research studies include:
 - continuing and widely based use of the Commission's 2005 report, *Economic Implications of an Ageing Australia*, for example by the Henry review of taxation (The Treasury 2009a) when discussing projections for state government expenditures; by the Business Council of Australia when discussing the need for tax reform (BCA 2008c) and when discussing health reform challenges (BCA 2008a); by NATSEM researchers when considering work incentives for mothers and implications for fiscal policy (Harding et al 2008); and by other academics (Bessant 2008; Felmingham, Jackson and Walter 2008)
 - continuing use of the Commission's 2005 report on *Australia's Health Workforce*, for example by the Department of Health and Ageing in relation to the pathology workforce (Legg 2008); by the AIHW when discussing health workforce reform, community health, dental services and rural and remote health issues (AIHW 2008); by the Parliamentary Library in a research paper and a bills digest (table B.2); and by academics (Dragon 2008; Gilling 2008; Stride 2008)
 - ongoing use of the Commission's 2008 *Consumer Policy Framework* report, including by Treasury (Hally-Burton et al. 2008); by the Australian

Consumer's Association (CHOICE 2008); by the House of Representatives Standing Committee on Economics, the Senate Standing Committee on Economics and the Joint Committee on Corporations and Financial Services (table B.1); and by academics (Griggs 2008)

- use of Commission reports by private sector consultants in their work for government and industry clients — for example, the Commission's 2006 study on the potential benefits of the National Reform Agenda (Concept Economics 2008, Access Economics 2008); past Commission work on effective rates of assistance and automotive assistance (Centre for International Economics 2009); the 2005 research report on Australia's health workforce (Access Economics 2009); and the Commission's 2008 study on business regulation benchmarking (Allen Consulting Group 2009).

Website and media coverage

Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.

- In the 12 months to June 2009 there were more than 173 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2008-09. The projects of most interest were the inquiries on paid parental leave (37 770 requests) and gambling (21 110 requests), and the research studies on the parallel importation of books (25 000 requests) and the contribution of the not for profit sector (17 000 requests). Other heavily accessed web pages were for the 2008 and 2009 Reports on Government Services (26 130 and 32 760 requests, respectively) and the 2007 Overcoming Indigenous Disadvantage Report (21 000 requests). Speeches by the Commission's Chairman attracted more than 47 000 requests. Even after an inquiry or project is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 1999 inquiry on Australia's gambling industries and the 2005 study of the economic implications of an ageing Australia were each requested over 9 500 times.
- Inquiry and commissioned research reports typically receive wide media coverage. In 2008-09 there were 39 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on paid parental leave and government drought policy, and the studies on the restrictions on the parallel importation of books, migration and population and automotive assistance options.
- Inquiries current in 2008-09 received over 4 180 mentions in the print and broadcast media during the year — over 65 per cent of total print and broadcast media coverage. Coverage of the Commission's inquiry into paid parental leave

(commenced in February 2008) accounted for over 40 per cent of total mentions. Commissioned studies current in 2008-09 attracted over 7 per cent of total media coverage. The majority of this coverage was accounted for by mentions of the study into restrictions on the parallel importation of books. New work suggestions accounted for over 4 per cent of total mentions.

Invited presentations

A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues is the 61 invitations the Commission accepted in 2008-09 to present papers on inquiries and commissioned studies to business, community and other groups — in particular, on the Commission's paid parental leave and drought policy inquiries, and the study on the contribution of the not for profit sector (table D.1).

Output 2: Performance reporting and other services to government bodies

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

- provides secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of the annual Report on Government Services; the two-yearly Overcoming Indigenous Disadvantage report; and reporting annual performance information on six National Agreements to the COAG Reform Council
- provides secretariat, research and report services to the Indigenous Expenditure Steering Committee reporting in respect of the annual report on expenditure on services to Indigenous Australians
- continues performance monitoring and related research on government trading enterprises (GTEs), work the Commission previously undertook for the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises
- undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

The Commission has also been called upon to provide secretariat and research services to other government bodies, such as the Heads of Treasuries.

The resources used in producing this output in 2008-09 were:

- 21 staff years
- \$4.1 million on an accrual basis.

Activities in 2008-09

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

- Report on Government Services 2009, 2 volumes (and on CD with supporting tables, January 2009)
- Report on Government Services 2009: Indigenous Compendium (April 2009)
- Financial Performance of Government Trading Enterprises, 2004-05 to 2006-07 (July 2008).

Review of Government Service Provision

The Review of Government Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. The Review's terms of reference specify that it collect and publish data that will enable ongoing comparisons of the efficiency and effectiveness of government services, and analyse reforms in government services.

As part of its Reconciliation Agenda, COAG requested in 2002 that the Review produce a regular report against key indicators of Indigenous disadvantage. The terms of reference for the report state:

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

In March this year, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference align the OID framework with COAG's six high level targets for Closing the Gap in Indigenous outcomes.

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

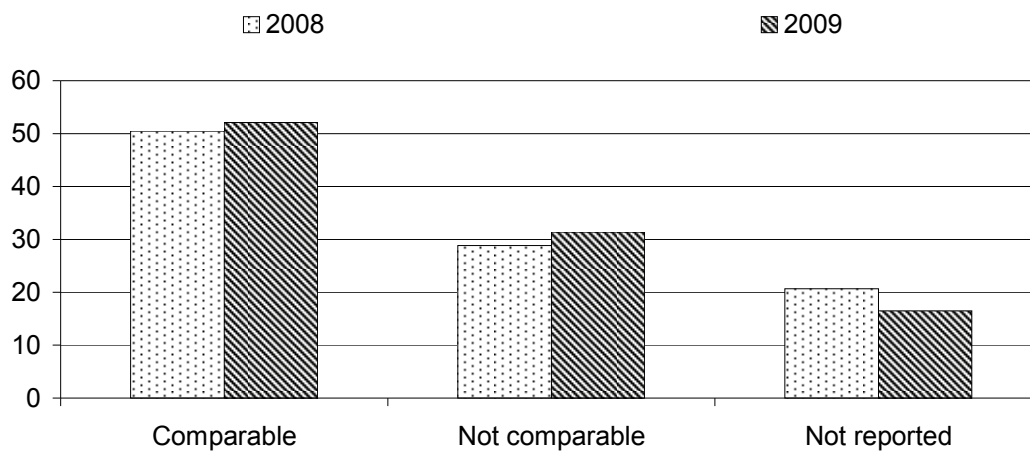
Report on Government Services

The fourteenth Report on Government Services was released in January 2009. The Report emphasises reporting of outcomes, consistent with the demand by governments for outcome-oriented performance information, and includes a focus on the equity of government service provision.

Reporting is an iterative process. Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Since the first Report was published in 1995, there have been significant advances in both the scope of reporting and the quality and comprehensiveness of data. Report content increased between the 2008 and 2009 Reports, with 52 per cent of indicators fully comparable in 2009 (compared to 50 per cent in 2008). The proportion of indicators reported on, but not fully comparable, increased from 29 to 31 per cent. The proportion of indicators with no reporting against them decreased to 16 per cent (figure B.2).

Figure B.2 Comparability of indicators

Per cent



Particular improvements in the 2009 Report included:

- Children's services — measure and data for 'Indigenous preschool attendance' were reported for the first time and a new indicator, measure and data were reported for 'Australian Government expenditure per child attending approved children's services'
- School education — student attendance data on year 1 to year 10 students were reported for the first time, along with national assessment data on year 6 students' scientific literacy performance, 15 year old students' achievement on international scientific literacy assessment, year 4 and year 8 students

achievement on international science and mathematic achievement, national assessment data on year 6 and year 10 students achievement for information and communication technologies literacy, and expansion of the scope of the school participation measure to include part time students and 14 year old students

- VET — reporting of VET and TAFE graduates who improved their employment circumstances after training, by Indigenous status, and reporting participation in certificate level III qualifications and above by target age groups
- Police services — the addition of comparable descriptive data on numbers of operational and non-operational police staff, and comparable and complete data for the ‘proportion of lower court cases resulting in a guilty plea’ indicator
- Corrective services — reporting age standardised data for Indigenous and non-Indigenous imprisonment rates
- Emergency management — reporting information on the estimated value of volunteers to State and Territory emergency services, data on community first responders, a revised ambulance performance indicator framework with nine additional performance indicators (with reporting on four of the new indicators), complete data for the cardiac arrest survived event rate indicator and comparable data for the level of patient satisfaction
- Primary and community health — reporting for the first time against the indicator ‘management of asthma’ and reporting a new measure of the indicator ‘management of diabetes’
- Health management — including data from the ABS 2007 *National Survey of Mental Health and Wellbeing*, reporting data on the proportion of the population receiving clinical mental health care, the reporting of expenditure on community-based services as a proportion of total spending on mental health services and the inclusion for the first time of data for ‘rates of community follow up for people within the first seven days of discharge from hospital’ and ‘readmissions to hospital within 28 days of discharge’
- Aged care — including data reflecting the Aged Care Funding Instrument, the inclusion of numbers of clients for key aged care programs, in addition to existing data on the numbers of operational places and rates of service provision per 1000 of target populations, the inclusion of data relating to Department of Veterans’ Affairs community nursing services for veterans, the inclusion of an additional category of experimental expenditure data for State and Territory expenditure on non-home and community care (HACC) post acute packages of care, the inclusion of the results of the most recent round of appraisals of HACC agencies for the indicator ‘compliance with service standards for community care’, the inclusion of a new measure for the indicator ‘complaints’, reflecting the introduction of the Complaints Investigation Scheme, the reporting for the

first time the outcome indicator ‘maintenance of individual functioning’, with data from the Transition Care program

- People with a disability — additional measures for the ‘Service use by special needs groups’ indicator on access to community support, community access and respite services by country of birth and geographic location, experimental estimates for the ‘Service use by special needs groups’ measures derived using ‘potential populations’ to account for differences in the need for services across the relevant groups, data on the participation of people with profound and severe core activity limitations in various social/community activities, by their perceived level of difficulty with transport, data on access to public housing, by ‘core activity need for assistance’ status, data on access to health services, by disability status in the Services for chapter
- Protection and support — reporting a national performance indicator framework for juvenile justice services for the first time, two new ‘response time’ indicators of the effectiveness of child protection services, and data for seven jurisdictions on indicative unit costs (program dollars per placement day) for out-of-home care services
- Housing — restructuring of the performance indicator framework sections of the chapter, and sourcing of complete unit record data from all jurisdiction administrative systems for the first time for a number of data items.

Table B.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2009 Report.

The Review continues efforts to improve reporting on service provision to Indigenous Australians. Improvements were made to Indigenous data for the Children’s services, school education, VET and Corrective services chapters in the 2009 Report. The Indigenous Compendium to the Report, released in April 2009, provides an easily accessible collation of all Indigenous data from the Report, and complements the information in the separate *Overcoming Indigenous Disadvantage* reports.

Table B.8 Indicators reported on a comparable basis, 2009 Report

<i>Service area/indicator framework</i>	<i>Indicators with data reported</i>	<i>Indicators reported on a comparable basis</i>	<i>Proportion comparable (per cent)</i>	<i>Change since last year in number reported on a comparable basis</i>
Early childhood, education and training				
Children's services	19	13	59.0	+1
School education	17	11	64.7	+1
VET	14	11	79.0	–
Justice				
Police services	21	16	76.0	+1
Court administration	6	3	50.0	–
Corrective services	11	10	90.9	–
Emergency management				
Fire events	10	2	20.0	–
Ambulance events	9	1	11.0	+1
Road rescue events	2	–	–	–
Health				
Public hospitals	15	6	40.0	–
Maternity services	10	3	30.0	–
Primary and community health	25	25	100.0	+4
Breast cancer	11	7	64.0	–
Mental health	10	4	40.0	–
Community services				
Aged care services	15	13	86.7	+1
Services for people with a disability ^a	12	6	50.0	-1
Child protection and out-of-home care	17	4	23.5	–
Juvenile justice ^b	na	na	na	..
SAAP	16	12	75.0	–
Housing				
Public housing	11	11	100.0	–
State owned and managed Indigenous housing	11	11	100.0	–
Community housing	10	2	20.0	–
Indigenous community housing	7	4	57.0	–
Commonwealth Rent Assistance	10	9	90.0	–

SAAP = Supported Accommodation Assistance Program. ^a Updated data were not available for one indicator that was included in the 2008 Report and this has led to a decrease in the number of comparable indicators reported. ^b The Juvenile Justice performance indicator framework has been included for the first time in the 2009 Report. Data are not yet available for reporting against this framework. **na** Not available. **..** Not applicable. **–** Nil or rounded to zero.

Overcoming Indigenous Disadvantage: Key Indicators

In 2002, COAG commissioned the Review to produce a regular report on key indicators of Indigenous disadvantage, 'to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council's commitment to reconciliation through a jointly agreed set of indicators' (COAG Communiqué, 5 April 2002). In March this year, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference align the OID framework with COAG's six high level targets for Closing the Gap in Indigenous outcomes. The structure of the aligned framework remains very similar to that of previous reports, but highlights the COAG targets and priority areas for reform and, as well, includes additional indicators. The Steering Committee has committed to consult further on the new framework following the release of the 2009 report.

The fourth edition of *Overcoming Indigenous Disadvantage* was published on 1 July 2009. It found, over the period reviewed, increases in employment, incomes and home ownership. Other outcomes did not improve in the period covered by the report. Rates of substantiated notifications for child abuse or neglect increased for both Indigenous and non-Indigenous children. The rate for hospitalisation for potentially preventable diseases increased for Indigenous people. Similarly, there was a slight increase in hospitalisations of Indigenous people for self harm. The report also found that Indigenous people's involvement with the criminal justice system continued to deteriorate.

The estimated cost to the Commission of assisting governments in the production of the *Report on Government Services, Overcoming Indigenous Disadvantage* and related Review activities in 2008-09 was \$4.1 million.

National Agreement reporting

The first tranche of National Agreement reporting, covering the education and training sectors, was delivered on schedule to the COAG Reform Council on 30 June 2009. At its meeting to endorse the content of the first tranche of reporting, the Steering Committee noted the successful consultation process undertaken with Review working groups, Ministerial Council sub-committees, data agencies and COAG Productivity Agenda Working Group sub-groups, leading to a high degree of consensus on report content.

The COAG Reform Council is currently consulting with jurisdictions on the content of its analytical report, and will report to COAG by the end of September 2009. Following public release of the COAG Reform Council's report, the Steering

Committee's report will also be made publicly available, enabling further analysis of the Commission's performance in relation to the report's production.

Indigenous Expenditure Report

In 2007, COAG agreed to the reporting of Indigenous expenditure. A Steering Committee was established in May 2008, and the Productivity Commission assumed Secretariat responsibilities from November 2008. A Stocktake Report — including terms of reference for the report and a high level overview of the intended methodology and future development process — was endorsed by the Steering Committee in February 2009, and subsequently endorsed by HoTs (March), the Ministerial Council for Federal Financial Relations (June) and COAG (July).

Following COAG endorsement of the methodology and development process proposed in the Stocktake Report, the Secretariat is preparing a series of consultation papers for Steering Committee endorsement, which will form the basis for formal consultations with Indigenous people, government agencies and data providers. As well as contributing to the development of the inaugural data report (planned for mid-2010), these consultations will enable further analysis of the Commission's performance in relation to the Stocktake Report.

Performance monitoring of government trading enterprises (GTEs)

The Commission released its report covering GTE performance in the period 2005-06 to 2006-07 in July 2008. It included the final outputs of a research program on the capital management of GTEs. Capital management was identified as warranting closer analysis given that most GTEs have capital intensive operations. Improvements to capital productivity arguably offer the greatest scope for further gains in financial performance.

International benchmarking

The Commission did not publish any benchmarking research on infrastructure in 2008-09.

Quality indicators

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

The Commission's work for the Review of Government Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 13 national working groups comprising representatives from around 80 government agencies — totalling around 220 people who provide specialist knowledge — and draws on the expertise of other bodies such as the ABS and the Australian Institute of Health and Welfare (AIHW), and committees established under Ministerial Councils.

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

The Review has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage* report. During 2008-09, following the release of the 2007 report, a team visited government agencies, Indigenous communities and Indigenous organisations across Australia, in a range of remote and regional centres, as well as in major cities. The team presented key results from the report and sought feedback from users. Further targeted consultations with governments, researchers and Indigenous organisations regarding the new framework and key results from the 2009 report are planned in 2009-10.

The Commission's quality assurance processes for its reporting on the financial performance of GTEs includes giving State and Territory Treasuries the opportunity to review drafts before publication.

Timeliness

The 2008 GTE financial performance monitoring report, the 2009 Report on Government Services and its Indigenous Compendium, and Feedback on the Report on Government Services 2008 were completed on time.

Indicators of usefulness

The usefulness of the Commission's performance reporting activities in contributing to policy making and public understanding is demonstrated by a range of indicators.

Review of Government Service Provision

The *Report on Government Services* is intended to provide information on the equity, effectiveness and efficiency of government services and it is used extensively in this regard:

- A variety of performance information sourced to the 2009 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2008-09.
 - In the Commonwealth Parliament, data from the reports were used in relation to public housing, aged care services, children’s services, protection and support services and health.
 - In other parliaments, data from the reports were mentioned 49 times and were used in relation to police services, disability services, protection and support services, education, court administration, health, public housing, emergency management, children’s services and corrective services.
- A number of journal articles and publications across a wide range of disciplines used the 2009 Report (and earlier reports) as a source. It was cited in articles in the Australian Journal of Human Rights, Australian Health Review, Australian Journal of Education, Australian Journal of Early Childhood, Journal of Judicial Administration, Drug and Alcohol Review, IPA Review, Australian and New Zealand Journal of Public Health and Australian Economic Review.

Other indicators of usefulness from 2008-09 were:

- high levels of demand for the report. More than 1470 bound copies of the report were distributed by the Commission and there were more than 37 500 HTML page requests for the Government Service Provision index page on the Commission’s website in 2008-09. There were more than 32 700 HTML page requests for the 2009 Report on Government Services during 2008-09. The 2008 Report continued to be accessed from the website — with over 26 000 page requests during 2008-09
- extensive media coverage of the 2008 Report on Government Services. There were 130 press articles drawing on the report and more than 200 mentions of it in electronic media in the period to 30 June 2009
- recognition of the report as a tool for measuring service delivery and outcomes achieved in the Standing Committee on Community Affairs report on ‘Government expenditure on Indigenous affairs and social services in the Northern Territory’

-
- the need for clear and consistent data definitions was highlighted at the NatStats08 Conference in a paper by The Treasury (Gruen and Goldbloom, 2008)

A useful evidence base depends heavily on clear and consistent data definitions. Inconsistent data are a big problem, particularly with figures collected across different jurisdictions. Every year since 1996, the Productivity Commission has released the Review of Government Services (RoGS) report that compares the performance of government services across states. And every year since 1996, readers of RoGS reports are overwhelmed by footnotes explaining the differences in data definitions across jurisdictions – we don't even have a consistent definition of an Indigenous person. [In Tasmania, somebody is Indigenous if they feature on the state's pre-existing registry, while in other states people qualify if they identify as Indigenous.]

- use of data by researchers: for example, data on court administration 'backlog indicator' were used in a Law Reform Committee Inquiry into Alternative Dispute Resolution and Restorative Justice (2009, p. 43); data on total cost per prisoner were used in a National Indigenous Drug and Alcohol Committee report into addressing Indigenous incarceration and health (2009, p. 10); data on casemix adjusted separations was used by the AIHW when reporting on Australia's health (AIHW 2009)
- widespread use of data from the 2009 (and earlier) government services reports to inform debate: for example, data on ambulance response times was used to inform debate about the performance of ambulance and paramedic services in the ACT (Stockman 2009); data on the number of doctors in the public health system and prison occupancy was used to inform debate in South Australia (Hill 2008; ABC News 2008); data on education spending was used to inform debate about the funding of state schools in Queensland (O'Loan 2008) and about Commonwealth and state spending on public education (Symonds 2008); and data on government spending on policing was used to inform debate in Victoria (Bendigo Advertiser 2009).

Overcoming Indigenous Disadvantage: Key Indicators

The principal task of the *Overcoming Indigenous Disadvantage* report is to identify indicators that are of relevance to all governments and Indigenous stakeholders and that can demonstrate the impact of program and policy interventions. The Prime Minister acknowledged the importance of the report when he issued revised terms of reference in March 2009:

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

disadvantage and as a result has helped inform the development of policies to address Indigenous disadvantage.

More specific evidence of the usefulness of the *Overcoming Indigenous Disadvantage* reports during 2008-09 includes:

- an invitation from Reconciliation Australia for the Commission's Chairman to present the third 'Closing the Gap' lecture in July 2009
- an invitation from COAG for the Commission's Chairman to present the findings from the 2009 report in conjunction with the July 2009 COAG meeting in Darwin
- two mentions of the report in the Federal and State parliaments
- extensive references to the 2007 report in the 2008 Native Title Report and the 2008 Social Justice Report, issued by the Aboriginal and Torres Strait Islander Social Justice Commissioner (Calma 2009)
- extensive references to the 2007 Report in the Australian Institute of Criminology technical and background paper 'Risk factors in Indigenous violent victimisation' (Bryant and Willis 2008)
- reference to the Overcoming Indigenous Disadvantage report in the 2008 Annual Hawke Lecture 'The Greatest Injustice: why we have failed to improve the health of Aboriginal people' delivered by Professor Fiona Stanley AC
- recognition of the report as a tool for measuring service delivery and outcomes achieved in the Standing Committee on Community Affairs report on 'Government expenditure on Indigenous affairs and social services in the Northern Territory'
- citations in articles in such journals as the Australian Health Review, Australian Journal of Education, Australian Journal of Early Childhood, Australian Journal of Political Science, Australian and New Zealand Journal of Criminology, Indigenous Law Bulletin and Quadrant
- use in a range of other research papers and reports, for example use by the National Indigenous Drug and Alcohol Committee (NIDAC 2009); and use by ANU researchers when discussing socioeconomic outcomes for Indigenous Australians (Altman, Biddle and Hunter 2008)
- use of the methodological analysis of reporting frameworks in a national report card on the wellbeing of young Australians, released by the Australian Research Alliance for Children and Youth (ARACY 2008)
- distribution by the Commission of more than 3300 bound copies of the 2009 report and 4500 copies of the 2009 overview

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- more than 21 000 HTML page requests of the full 2007 report and 3200 HTML page requests for the overview (HTML version), in 2008-09. The 2005 report also continued to be accessed during 2007-08 with more than 2600 requests
 - ongoing media coverage, with 6 press articles and 9 electronic media articles drawing on the Report or other sources such as the Indigenous Compendium in 2008-09.

Performance monitoring of government trading enterprises

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

- State and Territory governments were actively involved in the monitoring process through furnishing financial data as well as checking factual data and commentary
- The 2008 report on the financial performance of GTEs attracted media attention throughout the year, including articles in the *Australian Financial Review* by senior journalists on the results of the 2008 report
- References to the GTE reports from 2008 and previous years as an authoritative source in Federal and State and Territory parliamentary debate and in the proceedings of Federal Parliamentary Committees
- An invitation for the Commission to address the Chartered Secretaries of Australia's Annual Public Sector Update in August 2009 on the results of the latest GTE report
- There were over 4500 external requests for the website page of the 2008 report on GTE performance.

Output 3: Competitive neutrality complaints activities

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) is an autonomous office located within the Commission. It is staffed on a needs basis from the resources of the Commission. As specified in the *Productivity Commission Act* and the Commonwealth Competitive Neutrality Policy Statement of June 1996, the role of the AGCNCO is to:

- receive and investigate complaints on the application of competitive neutrality to Commonwealth government businesses, and make recommendations to the Government on appropriate action

- provide advice and assistance to agencies implementing competitive neutrality, including undertaking research on implementation issues.

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

The resources used in producing this output in 2008-09 were:

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

Activities in 2008-09

Complaints activity

The AGCNCO received no formal complaints during 2008-09 (table B.9).

Table B.9 Formal competitive neutrality complaints, 2004-05 to 2008-09

<i>Activity</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
Written complaints received	4	4	1	1	0
Action:					
New complaints formally investigated	–	–	1	–	–
Complaints investigated but not proceeding to full report ^a	–	4 ^b	–	1	–
Complaints not investigated	3	1	–	1	–
Reports completed	1	–	–	1	–
Complaints on hand (30 June)	1	–	1	–	–

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

Advice on the application and implementation of competitive neutrality

An important part of the AGCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. While no formal complaints were received, during 2008-09 the AGCNCO provided advice around twice a week, on average, to

government agencies or in response to private sector queries either over the telephone or in ad hoc meetings.

The AGCNCO provides advice on all aspects of the implementation of competitive neutrality. Over the past year, in response to requests, the Office provided advice to a number of agencies implementing competitive neutrality as part of market-testing exercises.

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

Quality indicators

Competitive neutrality complaint investigations and reporting engage the complainant, the government business in question, the competitive neutrality policy arms of the Australian Government and, as required, the government department within whose policy purview the business resides. The generally favourable feedback from all these parties on the integrity of the process and the usefulness of its outcomes — given that the AGCNCO's reports assess competing interests — is the strongest evidence as to the quality of the AGCNCO's work.

Where parties who received advice and assistance from the AGCNCO on competitive neutrality policy or its implementation have commented on the operation of the Office, their comments have been favourable.

Owing to their experience in dealing with competitive neutrality issues, the views of the staff of the AGCNCO on more complex matters are often sought by the Treasury and the Department of Finance and Deregulation — the departments responsible for competitive neutrality policy.

Timeliness

The AGCNCO aims to report on complaint investigations within 90 days of accepting a formal complaint for investigation.

Indicators of usefulness

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

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

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

The AGCNCO continues to receive a range of informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments continue to be received from government and private sector agencies on the usefulness of two AGCNCO publications — on cost allocation and pricing, and rate of return issues — in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand and use. For example, the guidance note on the cost of capital for competitive neutrality purposes issued by the Victorian Competition and Efficiency Commission (VCEC 2007) drew on the rate of return paper.

During 2008-09 there were more than 8100 external requests to the website for AGCNCO investigation reports and about 1800 external requests for AGCNCO research publications.

Output 4: Supporting research and activities and statutory annual reporting

While much of the Productivity Commission's research activity is externally determined, it has some discretion in meeting its legislative charter to undertake a supporting program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation. The expectations for its supporting research program are that it provides high quality, policy-relevant information, analysis and advice to governments and the community, of a nature and of a quality not being produced elsewhere. The research program aims to complement the Commission's other activities. The Commission also organises research conferences and workshops in order to advance the debate on policy issues, to encourage cutting-edge contributions, and to facilitate research networks.

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

The resources used in producing this output in 2008-09 were:

- 28 staff years
- \$5.8 million on an accrual basis.

Activities in 2008-09

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

- research to meet the Commission's annual reporting obligations, comprising
 - its annual report for 2007-08, tabled in Parliament on 31 October 2008, which focused on enhancing Australia's productivity growth
 - a companion publication on trade and assistance issues, released in May 2009
- Commission Research Papers on trends in aged care services and the performance of government trading enterprises
- a submission to Infrastructure Australia's National Infrastructure Audit
- a published version of the Chairman's 2008 Colin Clark Memorial Lecture, *Industry Policy for a Productive Australia*, as well as three other presentations by the Chairman posted on the Commission's website
- the Richard Snape Lecture, *Latin America in the Global Economy: Challenges and Opportunities*, delivered by Dr Vittorio Corbo (Governor of the Central Bank of Chile from 2003 until 2007) on 18 November 2008
- four Staff Working Papers on a variety of research topics including infrastructure, productivity and fertility
- the Commission's contribution to the China Australia Governance Program, the aim of which is to address governance issues which have an impact on the effectiveness of poverty alleviation in China. Deputy Chairman Mike Woods has been the Chair of the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in 2008-09
- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The research publications produced in the supporting research program in 2008-09 are listed in box B.3. Research projects underway at 30 June 2009 are shown in box B.4.

Box B.3 Supporting research and annual reporting publications, 2008-09

Annual report suite of publications

Annual Report 2007-08

Trade & Assistance Review 2007-08

Commission research papers

Financial Performance of Government Trading Enterprises 2004-05 to 2006-07

Trends in Aged Care Services: some implications

Submission

Submission to Infrastructure Australia's National Infrastructure Audit

Chairman's published speeches

Industry Policy for a Productive Australia

Evidence-based policy-making: What is it? How do we get it?

Conference/workshop proceedings

Promoting Better Environmental Outcomes

Staff working papers

Recent Trends in Australian Fertility

Productivity in the Mining Industry: Measurement and Interpretation

Investments in Intangible Assets and Australia's Productivity Growth

Public Infrastructure Financing: An International Perspective

2008 Richard Snape Lecture

Latin America in the Global Economy: Challenges and Opportunities (Dr Vittorio Corbo)

Richard Snape Lectures

The presentation by Dr Vittorio Corbo was the sixth in a series of public lectures in memory of Professor Richard Snape, the former Deputy Chairman of the Commission, who died in October 2002. The series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience. Previous lectures have been

delivered by Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006), Martin Wolf (associate editor and chief economics commentator at the *Financial Times*), Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles) and Patrick Messerlin (Director, Groupe d'Economie Mondiale, Institute d'Etudes Politiques de Paris).

The next lecture will be given by Professor Yu Yongding (Director, Institute of World Economics and Politics, Chinese Academy of Social Sciences).

Box B.4 Supporting research projects underway at 30 June 2009

Infrastructure and productivity: A review of theory and evidence	Investment in intangible assets and Australia's productivity growth – sectoral estimates
Setting priorities in services trade reform (ARC Linkage Grant)*	The distribution of recent economic gains
Tackling the tough problems in productivity measurement (ARC Linkage Grant)*	An analysis of the effects of competition on productivity in Australia
Modelling urban water demand and trade	Water use in Australian agriculture and farm performance
Dynamic labour supply of married Australian women	The effects of education and health on wages and productivity
Links between literacy and numeracy skills and labour market outcomes	The influence of selected characteristics on Indigenous labour market outcomes
Working choices of women nearing retirement	Historical validation using the Monash Multi Regional Forecasting (MMRF) model
Choosing the discount rate in cost benefit analysis	Global effects of EU agricultural support
Developing a partial equilibrium model of the urban water system	Developments in the empirical estimation of the impact of preferential trading agreements and preferential rules of origin
Better evaluation to strengthen evidence-based policy	The distributional impact of health outlays: developing the research and modelling infrastructure for policy makers (SPIRT project)*
Assessing the social and fiscal policy implications of an ageing population (ARC Linkage Grant)*	What are the major sources of wellbeing in Australia and can their impact on wellbeing be measured?

*Collaborative projects. Information on individual research projects is available from the Commission's website, www.pc.gov.au.

Supporting research proposals

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

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

The Commission sees value in the 'public good' aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 61 presentations given by the Chairman, Commissioners and staff in 2008-09 are provided in appendix D.

Quality indicators

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

For example, the quality assurance process for the staff working paper on productivity in the mining industry involved:

- consultations with a range of external parties, sectoral experts and peak bodies (including the Australian Bureau of Statistics, the Minerals Council of Australia and the Australian Petroleum Producers and Exporters Association)
- the use of internal and external referees, including referees from the Reserve Bank of Australia, the Australian Bureau of Agricultural and Resource Economics and Monash University.

Research projects can involve consultations with key interested parties on the issues they view as important and to obtain access to information. For example, the

Commission research paper on aged care trends benefited substantially from comments and feedback received during a workshop attended by a wide range of key industry participants and academics with expertise in aged care. Discussion focussed on key challenges facing the sector and data gaps in several areas. In preparing the paper the Commission also developed a questionnaire which was sent to aged care providers. (including IBIS Care, Mercy Aged Care, Catholic Health Australia, Holy Family Services and TriCare). The questionnaire was primarily intended to secure additional information to supplement the analysis of changes in the profile and expectations of service users, developments affecting the aged care workforce and opportunities for improving the productivity of the aged sector. The results from the questionnaire enabled the Commission to prepare a better analysis of influences on the productivity performance of providers.

Research is also monitored internally as it progresses, and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences. For example, recent work on assessing productivity in Australian health services has been presented at a number of forums, including at the 30th Australian Conference of Health Economists held in Adelaide in October 2008. Prior to this, the paper had been presented at an ARC Linkage Project Workshop, the ARC Linkage Project Conference on Setting Priorities for Service Trade Reform, and the ABS-Productivity Commission Productivity Perspectives Conference. The researchers also took part in a workshop with the ABS, the Australian Institute of Health and Welfare and the Department of Health and Ageing on improving the quality of health data for use in the National Accounts and for productivity measurement.

Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees for staff working papers in 2008-09 were drawn from the Reserve Bank of Australia, the Australian Bureau of Agricultural and Resource Economics, Monash University, the Australian National University, the Australian Bureau of Statistics, the Melbourne Institute, Statistics Netherlands, the University of Melbourne and the University of New England.

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

- publication by the Australian Public Service Commission in June 2009 of a speech by the Commission's Chairman, Gary Banks, on evidence-based policy, with a version also being published by ANZSOG
- invitations during the year for the Commission to be a research partner in ARC Linkage projects, including possible research projects on the use of social

science research in policy development and program review and on the role of gender and geography in Indigenous development

- a number of invitations received during the year for the Commission to contribute journal articles based on its research, including articles on urban water reform and productivity analysis
- an invitation for the Commission's Chairman to present the keynote address to the Annual Australian Conference of Economists dinner in October 2008.

Timeliness

The Commission's annual report for 2007-08, which included a theme chapter on enhancing Australia's productivity growth, was completed on schedule and tabled in Parliament on 31 October 2008. The annual report companion volume (*Trade & Assistance Review 2007-08*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

A number of supporting research projects in 2008-09 were placed on hold or delayed as resources were diverted to servicing projects commissioned by government. For example, the supporting research project on the dynamic labour supply of married Australian women was delayed pending completion of a number of commissioned projects. The priority accorded commissioned projects means that a supporting research project can often take longer than initially anticipated, even though delivered within the original budget. Research projects which are not very time sensitive can be resourced intermittently. Redefinition of project scope and delays in obtaining data and referee comments can also be reasons for delays in completion times. The more experimental or exploratory the project, the more difficult it is to schedule completion.

Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform and regulatory policy issues is available from a range of indicators. These cover the use of this research by government, community and business groups and international agencies, and invitations to discuss and disseminate its research findings in community and business forums. Examples from 2008-09 include the following:

- Outputs from the Commission's stream of environmental research were widely used in 2008-09. For example, the Garnaut Climate Change Review drew on a range of Commission research in its final report released in September 2008,

including research on urban water; a 2002 staff research paper (Stone, Matysek and Dolling 2002) on genetically modified crops was used by the Australian Bureau of Agricultural and Resource and Economics in a report on stockfeed containing GM ingredients (Ansell and McGinn 2009); and the Independent Pricing and Regulatory Tribunal (NSW), in the final report of its Review of NSW Climate Change Mitigation Measures (IPART 2009), drew on a number of past Commission research reports in the area, including the submission to the Garnaut Review (PC 2008d).

- Commission research on health and aged care, in particular the recently released report on *Trends in Aged Care Services*, was widely used during the year. For example, a paper on the aged care workforce produced in October 2008 by the National Institute of Labour Studies (NILS 2008) drew on the Commission's recent report; the Aged Care Industry Council (Aged Care Industry Council 2008) also drew on the Commission's report when discussing estimates of the costs of achieving wage parity with the health sector; and the final report of the National Health and Hospitals Reform Commission (NHHRC 2009b), released in June 2009, drew on the Commission's recent aged care research when discussing current planning and administration in the sector.
- Commission research outputs on labour markets also continued to be widely cited and used throughout the year. For example, a report on Australian families released by the Department of the Prime Minister and Cabinet (PM&C 2008) drew on a number of Commission outputs, including research on part-time employment (Abhayaratna et al. 2008) and research on fertility trends (Lattimore and Pobke 2008); a review of Australia's pension system undertaken by Dr Jeff Harmer for the Department of Families, Housing, Community Services and Indigenous Affairs cited Commission analysis of workforce participation and employment rates (Abhayaratna and Lattimore 2006); and a report on workforce skills released by the Australian Industry Group in December 2008 (AIG 2008) drew on a number of Commission outputs, including Abhayaratna and Lattimore (2006).
- Past Commission research in a diverse range of areas continued to be used in 2008-09, demonstrating the considerable 'shelf life' of Commission research outputs. For example, the Victorian Essential Services Commission drew on Commission findings in its 1999 research paper on regulation of the taxi industry when reviewing taxi fares (Essential Services Commission (Victoria) 2008); the Australian Government's innovation policy agenda (Australian Government 2009) cited past work on information and communications technology (Gretton, Gali and Parham 2002); in August 2008 the Australian Council of Deans of Agriculture (Pratley 2008) drew on Commission research from 2005 on the level of educational qualifications in the agricultural sector (PC 2005e); and in

October 2008 research undertaken by the Construction, Forestry, Mining and Energy Union (CFMEU 2008) on compensation for PAYE workers drew on past Commission work on self-employed contractors (Waite and Will 2001).

- The OECD made widespread use of Commission research in 2008-09 within its own published research. This included use of Commission research on casual contract employment (Murtough and Waite 2000) in a report on collective bargaining and enforcement (OECD 2009c); use of Commission research on intangible assets (Barnes and McClure 2009) in a report on innovation policy (OECD 2009d); use of Commission research on restrictions on trade in professionals services (Nguyen-Hong 2000) in a paper on enhancing services sector productivity in Japan (OECD 2008b); extensive use of a Commission Staff Working Paper on the demand for irrigation water (Appels, Douglas and Dwyer 2004) in several papers on the sustainable management of water resources in agriculture (OECD 2008c, 2009e); and use of research on the role of cost-benefit analysis in quarantine measures (Binder 2002) in an OECD paper on risk management and market openness policies (OECD 2008d).
- The *Trade and Assistance Review*, which is part of the Commission's suite of annual reporting, also continued to be used throughout the year in discussions of industry assistance and other policies. This included use in Parliamentary Committee reports (table B.1); use by academics and policy commentators (Roberts 2008; Howe and Landau 2009); and use in editorials in major newspapers and in other media coverage. The Commission received over 7 000 external requests in 2008-09 for the index pages of the Review on the Commission's website.
- Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables B.1 and B.2, respectively.

More generally, important means by which supporting research activities contribute to public debate are through media coverage, the dissemination of reports to key interest groups and ready access to reports on the Commission's website. Outputs from the Commission's supporting research program attracted nine editorials in major newspapers in 2008-09. To 30 June 2009, for the reports listed in box B.3, there were more than 53 400 external requests for the index pages on the Commission's website. There was a total of more than 137 500 external requests for the 67 supporting research reports for which website usage was tracked, and more than 47 000 requests for speeches by the Commission's Chairman.

C Government commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides a summary of projects which the Government commissioned during the year and government responses to reports completed in 2008-09 and previous years. It also reports on commissioned projects received since 30 June 2009.

This appendix is structured as follows:

- terms of reference for new government-commissioned inquiries and studies
- reports released and, where available, government responses to them
- government responses to reports from previous years.

Table C.1 summarises activity since the Commission's 2007-08 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					
27-2-08	Improved Support for Parents with New Born Children	AR 07-08	Report No. 47 signed 28-2-09	page 180	page 182
20-6-08	Inquiry into Government Drought Support	AR 07-08	Report No. 46 signed 27-2-09	page 185	na
20-10-08	Australia's Gambling Industries	page 166	in progress	na	na
19-3-09	Review into the Regulation of Director and Executive Remuneration in Australia	page 168	in progress	na	na
23-3-09	Australia's Anti-dumping and Countervailing System	page 170	in progress	na	na
29-9-09	Inquiry into Wheat Export Marketing	page 172	in progress	na	na
Other commissioned projects					
28-2-07*	Annual Review of Regulatory Burdens on Business – Primary Sector	AR 06-07	Report completed 5-11-07	AR 07-08	page 191
28-2-07*	Annual Review of Regulatory Burdens on Business – Manufacturing Sector and the Distributive Trades	AR 06-07*	Report completed 29-8-08	AR 07-08	page 176
28-2-07*	Annual Review of Regulatory Burdens on Business – Social and Economic Infrastructure Services	AR 06-07*	in progress	page 189	na
5-9-07	Performance Benchmarking of Australian Business Regulation: Quantity & Quality and Cost of Business Registration	AR 06-07	Reports completed 12-12-08	page 178	na
10-4-08	2008 Review of the Mutual Recognition Agreement and the Trans-Tasman Mutual Recognition Agreement	AR 07-08	Report completed 30-1-09	page 183	na

10-4-08	Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector	AR 07-08	Report completed 9-4-09	page 184	na
13-11-08	Restrictions on the Parallel Importation of Books	page 187	Report completed 30-6-09	page 187	na
23-12-08	Performance Benchmarking of Australian Business Regulation: OHS and Food Safety	page 167	in progress	na	na
17-3-09	Review of the Contribution of the Not-For-Profit Sector	page 167	in progress	na	na
15-5-09	Performance of Public and Private Hospital Systems	page 171	in progress	na	na
24-7-09	Study into Mechanisms to Purchase Water Entitlements	page 172	in progress	na	na

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

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2007-08 which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in relevant reports.

Australia's Gambling Industries

On 20 October 2008, the Assistant Treasurer asked the Commission to undertake an inquiry into Australia's gambling industries, commencing on 24 November 2008. This follows an earlier gambling inquiry undertaken by the Commission in 1999.

In undertaking the inquiry, the Commission is to provide an update of the 1999 report in the following areas:

- the nature and definition of gambling and the range of activities incorporated within this definition
- the participation profile of gambling, including problem gamblers and those at risk of problem gambling
- the economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries such as tourism, leisure, other entertainment and retailing
- the social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it
- the contribution of gambling revenue on community development activity and employment
- the effects of the regulatory structures — including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing taxation arrangements — governing the gambling industries, including the implications of differing approaches for industry development and consumers
- the implications of new technologies (such as the Internet), including the effect on traditional government controls on the gambling industries
- the impact of gambling on Commonwealth, State and Territory Budgets.

The Commission is also requested to provide additional research into the impacts of harm minimisation measures in the following areas:

-
- the impact that the introduction of harm minimisation measures at gambling venues has had on the prevalence of problem gambling and on those at risk
 - the effectiveness and success of these harm minimisation measures as used by the State and Territory Governments.

The Commission is required to produce a final report by the end of February 2010.

Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety and Food Safety

On 23 December 2008 the Commission received a request to commence the second year of its Performance Benchmarking of Australian Business Regulation study. This followed agreement by the COAG Business Regulation and Competition Working Group (BRCWG) that the Commission should focus on occupational health and safety (OHS) and food safety regulation in the second year of its study. In his letter, the Assistant Treasurer pointed out that the BRCWG had:

- noted the merit in continuing the benchmarking work program
- agreed that occupational health and safety and food safety regulation should be considered by the Commission in year 2
- requested that the Commission complete the OHS and food safety benchmarking reports by December 2009
- agreed to revisit the Commonwealth's future work plan in relation to the benchmarking study in 12 months time.

The Assistant Treasurer stated that he 'would be grateful if you could undertake whatever action is necessary to fulfil the BRCWG's direction' and also specified that the Commission 'may structure its work as it sees fit within the timeframe indicated'.

Review of the Contribution of the Not-For-Profit Sector

On 17 March 2009, the Assistant Treasurer requested that the Commission undertake a study into the contribution of the not-for-profit sector.

In undertaking its study, the Commission is requested to focus on improving the measurement of the contributions of the sector and on removing obstacles to maximising its contributions to society. The Commission is to:

-
- assess the extent to which the not-for-profit sector's contributions to Australian society are currently measured, the utility of such measurements and the possible uses of such measurements in helping shape government policy and programs
 - consider alternatives for, or improvements in, such measurements, or further quantitative and/or qualitative means of capturing the not-for-profit sector's full contribution to society
 - identify unnecessary burdens or impediments to the efficient and effective operation of community organisations generally, including unnecessary or ineffective regulatory requirements and governance arrangements, while having regard to the need to maintain transparency and accountability
 - consider options for improving the efficient and effective delivery of government-funded services by community organisations, including improved funding, contractual and reporting arrangements with government, while having regard to the need for transparency and accountability
 - examine the changing nature of relationships between government, business and community organisations in recent times, their general impacts, and opportunities to enhance such relationships to optimise outcomes by the sector and its contribution to society
 - examine the extent to which tax deductibility influences both decisions to donate and the overall pool of philanthropic funds
 - examine the extent to which tax exemptions accessed by the commercial operations of not-for-profit organisations may affect the competitive neutrality of the market.

A draft and final report are to be produced and published by the end of 2009.

Review into the Regulation of Director and Executive Remuneration in Australia

On 19 March 2009 the Assistant Treasurer asked the Commission to undertake an inquiry into the current Australian regulatory framework around remuneration of directors and executives, as it applies to companies which are disclosing entities regulated under the *Corporations Act 2001*.

In undertaking the inquiry the Commission has been asked to consider the following:

- trends in director and executive remuneration in Australia and internationally, including among other things, the growth in levels of remuneration, the types of remuneration being paid, including salary, short-term, long term and equity-

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- based payments and termination benefits and the relationship between remuneration packages and corporate performance
- the effectiveness of the existing framework for the oversight, accountability and transparency of director and executive remuneration practices in Australia including:
 - the role, structure and content of remuneration disclosure and reporting
 - the scope of who should be the subject of remuneration disclosure, reporting and approval
 - the role of boards and board committees in developing and approving remuneration packages
 - the role of executives in considering and approving remuneration packages
 - the role of other stakeholders, including shareholders, in the remuneration process
 - the role of, and regulatory regime governing, termination benefits
 - the role of, and regulatory regime governing, remuneration consultants, including any possible conflicts of interest
 - the issue of non-recourse loans used as part of executive remuneration
 - the role of non-regulatory industry guidelines and codes of practice.
 - In light of the presence of large local institutional shareholders in Australia, such as superannuation funds, and the prevalence of retail shareholders, the role of such investors in the development, setting, reporting and consideration of remuneration practices.
 - Any mechanisms that would better align the interests of boards and executives with those of shareholders and the wider community, including but not limited to:
 - the role of equity-based payments and incentive schemes
 - the source and approval processes for equity-based payments
 - the role played by the tax treatment of equity-based remuneration
 - the role of accelerated equity vesting arrangements
 - the use of hedging over incentive remuneration.
 - The effectiveness of the international responses to remuneration issues arising from the global financial crisis, and their potential applicability to Australian circumstances.

The Commission has also been asked to make recommendations as to how the existing framework governing remuneration practices in Australia could be improved. A final report is to be provided to the Government in December 2009.

Australia's Anti-dumping and Countervailing System

On 23 March 2009, the Assistant Treasurer asked the Commission to inquire into Australia's anti-dumping system. The Commission is to assess the policy rationale for, and objectives of, Australia's anti-dumping system, and assess the effectiveness of the current system in achieving those objectives. It is also to make recommendations on the appropriate future role of an anti-dumping system within the Government's overall policy framework.

In undertaking its assessment, the Commission is to examine the economy-wide costs and benefits of Australia's anti-dumping system, having regard to the administration and compliance costs of the system and taking account of, and where possible quantifying, the impact of the arrangements on:

- the overall performance of the Australian economy, particularly economic growth, investment and competitiveness
- importers and domestic industry, including small businesses, exporters, firms at different stages in the supply chain
- consumers and the broader community, including regions.

The Commission is also to assess the administration of the anti-dumping system, taking account of the concerns of both importers and domestic industry, including but not limited to, the costs of compliance and administration, timeliness of the process, the effect on business certainty, and difficulties in accessing the system. In doing so, the Commission is to consider:

- determination of dumping/existence of subsidies
- assessment of injury
- establishment of a connection between the dumping/subsidisation and the injury
- determination of appropriate measures
- review mechanisms.

The Commission has also been asked to consider relevant substantive studies undertaken elsewhere, including the findings of the Joint Study into Australia's Anti-Dumping System undertaken by the Australian Customs Service and the former Department of Industry, Tourism and Resources.

In making recommendations on the appropriate future role of an anti-dumping system in the Government's overall policy framework, the Commission is to:

- aim to improve the overall performance of the Australian economy, taking into account the interests of industry, importers and consumers
- consider the consistency of anti-dumping policy with the overall policy framework, in particular competition, trade and industry policies, and alternative means of achieving the Government's objectives
- have regard to Australia's international rights and obligations, including recent developments in international trade law and the current World Trade Organization Doha Round
- suggest practical ways of reducing compliance and administration costs, increasing business certainty and simplifying access to, and the timeliness and effectiveness of, the system.

The Commission is to provide both a draft and a final report, with the final report provided within nine months of receipt of the reference.

Performance of Public and Private Hospital Systems

On 15 May 2009, the Assistant Treasurer requested that the Commission undertake a study into public and private hospitals.

The Commission has been asked to examine the relative performance of the public and private hospital systems, and related data issues. This is to include a comparison of:

- comparative hospital and medical costs for clinically similar procedures performed by public and private hospitals;
- the rate of hospital-acquired infections by type, reported by public and private hospitals;
- rates of fully-informed financial consent by privately-insured patients, out-of-pocket expenses for patients who do not give such consent, and best-practice examples where fully-informed financial consent is provided for every procedure; and
- other relevant performance indicators, including the ability of such indicators to inform comparisons of hospital performance and efficiency.

If any of the above tasks prove not fully possible because of conceptual problems or data limitations, the Commission is to propose developments to improve the feasibility of future comparisons.

The Commission has also been asked to advise the Government on the most appropriate indexation factor for the Medicare Levy Surcharge (MLS) income thresholds.

A final report is due to be provided to Government by 4 December 2009.

Study into Mechanisms to Purchase Water Entitlements

On 24 July 2009, the Assistant Treasurer requested that the Commission undertake a study into alternative market mechanisms for recovering water in the Murray-Darling Basin.

The study's focus is on identifying:

- appropriate, effective and efficient mechanisms that could be used to diversify the range of options to purchase water entitlements under the Restoring the Balance in the Murray-Darling Basin program to restore environmental flows; and
- impediments to new and established water purchase mechanisms and how these could be overcome.

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

- mechanisms used nationally and internationally by governments to purchase water entitlements or similar property rights;
- the proposed pace of environmental water recovery and the depth of the water markets in the Murray-Darling Basin;
- the impact on the water market, particularly where the Government may be the dominant buyer; and
- potential methods to maximise synergies between water purchase and the Sustainable Rural Water Use and Infrastructure program.

The Commission is to complete its final report within six months of receipt of the reference.

Inquiry into Wheat Export Marketing Arrangements

On 29 September 2009, the Assistant Treasurer requested that the Commission undertake an inquiry into wheat export marketing arrangements and report before 1 July 2010.

The *Wheat Export Marketing Act 2008* (the Act) came into effect on 1 July 2008. The Act established a new regulator, Wheat Exports Australia (WEA), to formulate and administer an accreditation scheme for bulk wheat exports. The *Wheat Export Accreditation Scheme 2008* (the Scheme) also came into effect on 1 July 2008. Section 89 of the Act requires the Commission to conduct an inquiry into the operation of the Act and the Scheme.

In conducting its inquiry, the Commission is required to review:

- the operation of the Act, including the costs and benefits; and
- the operation of the Scheme, including the costs and benefits.

In conducting the inquiry, the Commission is required to assess the effectiveness of the arrangements in meeting the objectives of the Act and will consider the operation of the Act and the Scheme, including the role of WEA, as a whole. The Commission is also to consider how individual components of the Act and the Scheme affect relevant stakeholders and the costs and benefits they deliver. The Commission is also requested to provide comment on those aspects that are working effectively and identify those that require change, and take into consideration recent reports and studies into Australia's grain supply chains.

The Commission is also required to give consideration to issues that may or do affect the effective operation of the Scheme including, but not limited to:

- the suitability of the eligibility criteria required for, and conditions imposed upon accreditation;
- the appropriate level of assessment of each applicant for accreditation by WEA against these eligibility criteria;
- the appropriateness and effectiveness of the access test requirements that apply both before and after 1 October 2009;
- the effectiveness of, and level of competition existing under current arrangements for the transport, storage and distribution of wheat in contributing to a sustainable supply chain from farm gate to export load port;
- the availability and transparency of relevant market information to participants in the export supply chain; and
- any other factors that may affect the performance of WEA.

If considering changes to the operation of the Act or Scheme, the Commission is required to examine how such changes would affect arrangements to fund WEA and the use of cost-recovery mechanisms.

Commission reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 21 October 2009. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Chemicals and Plastics Regulation

Research Report completed 28 July 2008, report released 7 August 2008.

The Commission's main findings and recommendations were:

- Chemicals and plastics contribute to our wellbeing, but some can pose substantial risks to health and the environment. Government intervention to manage risks is warranted where benefits materially exceed costs.
- Chemicals regulations are generally grafted onto (differing) state and territory Acts that deal with public health, workplace safety, transport safety, environment protection and national security.
- Current regimes are broadly effective in managing risks to health and safety, but are less effective in managing risks to the environment and national security. Efficiency can be improved through national uniformity in most areas.
- The Commission proposes building a governance framework that enhances national uniformity by addressing failures at four levels.
- *Level 1 — policy development and regime oversight.* A national function through ministerial councils supported by intergovernmental agreements:
 - chemicals policy coordination should be undertaken by an officer-level, cross-council standing committee on chemicals.
- *Level 2 — assessment of chemical hazards and risks.* An Australian Government science-based function undertaken under statutory independence:
 - the industrial chemicals agency should undertake assessments, not set risk management standards.
- *Level 3 — risk management standards setting.* A national function by expert-member agencies operating within the policy frameworks of the ministerial councils:
 - poisons scheduling should be separated from drugs
 - maximum residue levels for domestically produced foods that are set by APVMA should be automatically included in the food standards code, with

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- right of change by FSANZ and the Australia and NZ Food Regulation Ministerial Council
- while replacement of the workplace safety agency (ASCC) by an independent agency is supported, it should not be a tripartite representative body
 - the effectiveness of new model regulations for transport needs to be monitored
 - an environmental risk management standards body should be established
 - risk management of chemicals of security concern (including ammonium nitrate) should adopt the Commission’s governance framework.
- *Level 4 — administration and enforcement.* Generally jurisdiction-specific:
 - all standards should be adopted in a uniform or nationally consistent manner by administering agencies
 - control of use of agvet chemicals should be consolidated under the APVMA but delivered through service level agreements by the states and territories.
 - Australia should defer adopting the Globally Harmonised System of Classification and Labelling of chemicals until the benefits from trade can be demonstrated.

Government decision

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

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

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

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

Subsequently, at its meeting on 29 November 2008, COAG agreed to a new governance structure to oversee chemicals and plastics regulatory reform as

proposed in the Commission's report, including the establishment of a COAG Standing Committee on Chemicals (COAG 2008d). At the same meeting COAG also agreed to an interim response to the recommendations in the Commission's report (COAG 2008e). Of the 30 recommendations responded to, COAG welcomed or supported 20 and noted progress on the remaining recommendations. These covered chemicals and plastics regulatory reform in a range of areas, including national policy formulation and governance, national hazard and risk assessment, public health, occupational health and safety, transport safety, agricultural and veterinary chemical products, environment protection and national security.

At its November 2008 meeting COAG also welcomed progress on implementing the 18 early harvest reforms which endorse elements of the reform blueprint proposed by the Commission.

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

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

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

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

- Regulation of the manufacturing and distributive trades sectors is complex and diverse, involving all tiers of government. This study proposes the reduction of specific Australian Government regulations which are unnecessarily burdensome for businesses in these sectors. These initiatives build on the significant amount of reform currently underway, including the expanded COAG regulation reform agenda.
- Many of the concerns raised by businesses related to jurisdictional differences in the implementation and enforcement of regulations. While governments are pursuing greater uniformity, this process is ongoing but incomplete, leading to a level of frustration by businesses.
- A common concern of businesses was poor communication with regulators. The information provided by regulators could be difficult to access, inconsistently communicated or costly to understand. Poor communication can also be a barrier

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- to small businesses entering markets as they may be less able either to employ or to contract expert assistance to understand the regulations affecting them.
- Concerns which were the subject of other reviews (such as chemicals and plastics) have been referred to the relevant agency. This review has identified and addressed three main areas.
 - Food regulation can be made less burdensome by
 - increasing national consistency of regulation
 - improving timeliness and transparency of decision making by the Australia New Zealand Food Regulation Ministerial Council
 - ensuring public health issues are considered by the Health Ministers’ Conference before referring any food regulation-related issues to the Australia New Zealand Food Regulation Ministerial Council.
 - The frameworks for approving and registering new medicines and medical devices can be streamlined by
 - reducing the time and cost, and improving the transparency, of assessment processes by the Therapeutic Goods Administration (TGA)
 - improving coordination between regulators where regulatory processes overlap
 - removing the TGA’s monopoly on conformity assessment for Australian manufacturers of medical devices by allowing manufacturers to choose a certification body approved by the TGA
 - a comprehensive review of health technology assessment processes.
 - Compliance and enforcement of environmental regulations can be improved to ensure the policy objectives are being achieved and that complying businesses are not disadvantaged. These regulations include
 - the Water Efficiency Labelling and Standards Scheme
 - energy labelling and minimum energy performance standards.

Government decision

On 18 March 2009 the Government released a detailed response to the report (Australian Government 2009c). Of the Commission’s 23 responses, the Government accepted or accepted in principle 19 responses, noted two and did not accept a further two.

The Government accepted responses across a range of areas, including pricing processes in the Pharmaceutical Benefits Scheme, the Health Technology

Assessment System for medical devices and technologies, the Water Efficiency Labelling and Standards (WELS) Scheme, and requirements for energy labelling and minimum energy performance standards.

The Government did not support two responses:

- In relation to the Commission's proposal that the Australian Building Codes Board (ABCB) determine whether compliance programs on structural plywood are effective, the Government noted that compliance in this area is a State and Territory responsibility. As such, the Government stated that the Chair of the ABCB will write to the relevant state and territory bodies outlining industry concerns in this area.
- Regarding the Commission proposal that businesses report and pay excise and excise equivalent customs duties on a monthly basis, the Government noted that it will introduce measures allowing small businesses to report and pay excise and duties on a monthly rather than a weekly basis.

Performance Benchmarking of Australian Business Regulation: Quantity and Quality; and Cost of Business Registrations

Research reports completed 28 November 2008, reports released 12 December 2008.

Key points from the report on Quantity and Quality of Regulation were that:

- The quantity of regulation that business must comply with is one indirect indicator of compliance costs
 - as regulation is not classified in any jurisdiction by who is regulated, only the total quantity of regulation can be measured
 - significant differences were found across jurisdictions in the number of acts and other regulation and their size, and the relative use of different regulatory instruments.
- The number and scale of regulators, and the extent of their interaction with businesses is another such indicator. Estimates provided by business regulators showed considerable differences in the number of regulators, their average size, the number of business licences issued and the value of fees and charges collected, not fully explained by the relative sizes of the jurisdictions.
- The quality of the processes for developing and administering regulation was used as a proxy for the quality of regulation itself. There are significant variations across jurisdictions in the processes for developing and reviewing

regulations and in the way regulators interact with businesses. However, some common patterns emerged:

- there are few mandatory requirements for consultation on regulatory proposals
 - the proportion of regulatory proposals actually subjected to regulatory impact analysis or compliance cost estimation is generally low
 - few regulators have facilities for online lodgement of forms, renewal of licences, and payment of fees and charges
 - few regulators will allow businesses licensed in another jurisdiction to operate in their jurisdiction without obtaining a separate licence.
- Local governments play a major role in business regulation. Limited survey responses meant benchmarking quality and quantity of regulation was only possible for the capital cities. Large capital city councils appear to exhibit similar characteristics to business regulators of similar size.
 - The exercise points to significant differences across jurisdictions in the quantity and quality of regulation. These reflect some inherent differences, such as in business structures and industry intensity, as well as different approaches to regulation by the jurisdictions.
 - Indirect indicators have limitations in providing a measure of comparative regulatory burdens across jurisdictions. However, the lessons from this study are that such benchmarking could be improved:
 - for quantity indicators, by targeting more closely business regulation
 - for quality indicators, by assessing the application of best practice principles in each jurisdiction’s regulatory decisions.

Key points from the report on the Cost of Business Registrations were that:

- This benchmarking study estimates the compliance cost to businesses of obtaining a range of generic and industry-specific registrations required by the Australian Government, and state, territory, and selected local governments:
 - generic registrations relate to incorporation, taxation and business name registrations; industry-specific registrations covered are those needed to operate a café, domestic builder, long day child care, real estate agent and winery.
- No patterns of consistently high or low costs of business registration were found across industries or jurisdictions. Nevertheless, the differences point to opportunities that jurisdictions can explore to reduce compliance burdens.

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- The estimated time costs of business registration were low for generic business registrations and generally low for industry-specific registration
 - businesses almost universally reported that the activities related to registration processes were either ‘easy’ or ‘not difficult’.
 - Most of the differences in costs were attributable to differences in fees, with jurisdictions taking different approaches to setting fees and charges. For example, some jurisdictions did not charge fees for registering a child care business.
 - Processing times for applications showed considerable variation across industries and jurisdictions. But they were generally not excessive and often were very quick.
 - The approach aimed to ‘triangulate’ data from regulators, synthetic analysis by consultants and business feedback to establish representative estimates. In practice, synthetic analysis was not sufficiently comprehensive and business response rates too low for the data to provide reliable comparisons across jurisdictions. Consequently, the aggregate time cost estimates needed to be based on data provided by the regulators.
 - The study acted as a ‘pilot’ for the methodology and approaches to data collection. It highlighted several areas for improvement:
 - ways are needed to improve business participation. Benchmarking regulation that imposes more significant, ongoing compliance costs should motivate greater business engagement
 - understanding in detail differences in the processes of each jurisdiction is central to developing appropriate synthetic analysis and regulator questionnaires
 - sequencing is important in data collection, as early business feedback can help to inform the design of the regulator survey and synthetic exercise
 - regulators are well placed to collect data from businesses on compliance costs, so options to work with them to collect business feedback cost-effectively should be explored
 - support from a central coordinating agency in each jurisdiction is crucial to achieving comprehensive and timely responses.

Paid Parental Leave: Support for Parents with Newborn Children

Inquiry Report No 47 signed 28 February 2009, report released 12 May 2009.

The Commission’s main findings and recommendations were that:

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- The Australian Government’s statutory paid parental leave scheme should be taxpayer-funded, and should:
 - provide paid postnatal leave for a total of 18 weeks that can be shared by eligible parents, with an additional two weeks of paternity leave reserved for the father (or same sex partner) who shares in the daily primary care of the child
 - provide the adult federal minimum wage (currently \$543.78) for each week of leave for those eligible, with benefits subject to normal taxation.
 - All those employed with a reasonable degree of attachment to the labour force should be eligible, including the self-employed, contractors and casual employees.
 - A broad range of family types should be eligible, including conventional couples, lone parents, non-familial adoptive parents, same sex couples, and non-parental primary carers in exceptional cases, so long as they meet the employment test.
 - Those families not eligible for paid parental leave may still be eligible for paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.
 - Employers should participate in the scheme by:
 - acting as paymasters where the employee had sufficient workplace tenure, with the government prepaying employers by instalment to avoid cash flow impacts
 - providing superannuation contributions for long-term eligible employees, though this measure should be deferred for at least three years and reviewed at that time.
 - Such a scheme would meet a range of commonly agreed objectives. It would:
 - generate child and maternal health and welfare benefits by increasing the time parents take away from work. The Commission estimates that the average absence will increase by ten weeks. Many more families would have an increased capacity to provide exclusive parental care for children for six to nine months
 - promote some important, publicly supported social goals, and in particular, that having a child and taking time out for family reasons is viewed by the community as part of the usual course of work and life for parents in the paid workforce
 - counter some of the incentives against working posed by the tax and welfare system — potentially contributing around six months of net additional employment for the average woman over her lifetime

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- increase retention rates for business, with reduced training and recruitment costs.
 - The Commission estimates that the government scheme will cost taxpayers around \$310 million annually in net terms (with an additional net cost to the economy of \$70 million if super contributions are introduced in the future).
 - These costs take account of significant offsets from reduced social welfare payments (including removal of the baby bonus for parents using the scheme) and the tax revenue from paid leave. The costs would be much higher without these offsets.

Government decision

As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme being introduced is closely based on that proposed in the Commission's final inquiry report.

In introducing its scheme, the Government stated:

The Productivity Commission recommended a scheme designed to provide wide coverage and modest financial benefits to working mothers, and to ensure minimal impact on employers. The Commission also recognised the current economic environment in Australia and concluded that the best option for Australia was a Government financed scheme.

In addition, the Commission recommended two key features for the scheme:

- in most cases employers should make the payments to their employees to ensure primary carers (predominantly women) stay connected with the workplace; and
- the scheme should cover 18 weeks of leave as it estimated that, coupled with other leave arrangements, this would allow most infants to be exclusively cared for by their parents for the first six months of life (without undue financial stress).

The Government accepted these recommendations and its Paid Parental Leave scheme has each of these three key features. (Australian Government 2009b)

The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.

The scheme will be open to new parents who are the primary carers of a child born or adopted on or after 1 January 2011.

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

Research Report completed 23 January 2009, report released 6 February 2009.

The Commission's main findings and recommendations were that:

- Mutual recognition is a low-cost, decentralised means of dealing with interjurisdictional differences in laws and regulations.
- The Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA) have increased the mobility of goods and labour around Australia and across the Tasman.
 - Greater mobility of goods and labour is a potential source of economic benefits, and is consistent with a move to a seamless Australian economy and a single trans-Tasman market.
- The schemes operate less effectively on the occupations side than on the goods side.
 - Differences in occupational standards between jurisdictions are a source of regulator concern, due to the potential for deficient standards to cause harm.
 - Allowing ongoing professional development and criminal record checks for mutual recognition registrants, that already apply to local registrants, would mitigate some of the risks created by interjurisdictional differences in standards.
- On the goods side, the efficiency and effectiveness of the schemes could be improved through an expansion of their coverage.
 - A range of goods are currently exempted but could now be mutually recognised. They include most gas appliances under the TTMRA and goods covered by Australian ozone protection laws under the MRA.
- In some areas, the impetus towards trans-Tasman mutual recognition or harmonisation has stalled, creating unnecessary costs for stakeholders.
 - Unless the New Zealand Parliament can soon pass legislation enacting a joint regulatory regime, the special exemption for therapeutic goods should become a permanent exemption, so as to avoid uncertainty.
- Aspects of the machinery of the schemes should be improved to reduce the administrative and legal burden they create for governments and other stakeholders.
 - Cooperation programs associated with special exemptions under the TTMRA should have a rollover and reporting period lasting up to three years.

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- Regulators often do not meet their mutual recognition obligations, and firms and individuals do not make full use of the schemes.
 - Two specialist units should be created to facilitate the operation of mutual recognition of goods and occupations, through the provision of advice, complaint resolution, monitoring and awareness raising.
 - Bilateral engagement by Australia and New Zealand with third countries creates more opportunities than risks for the mutual recognition partner, as long as mutual recognition implications are taken into account before agreements are made.
 - Amendments to the mutual recognition legislation are urgently needed to remedy ambiguities and omissions in the Acts, as well as to enable the schemes to reach their full potential.

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

Research Report completed 9 April 2009, report released 30 April 2009.

The Commission's main findings and recommendations were that:

- Oil and gas projects are large and complex. From the community's perspective, it is important that they meet reasonable requirements for the environment, heritage, land access, and occupational health and safety. It is also important to achieve these objectives without imposing unnecessary costs on companies or the broader community.
- Currently, duplication and overlap, and inconsistent administration of the 22 petroleum and pipeline laws and more than 150 statutes governing upstream petroleum activities impose significant unnecessary burdens on the sector.
 - Project approvals are taking longer than a streamlined approval process would allow, potentially diminishing the present value of petroleum resource extraction in Australia by billions of dollars each year.
- There is no simple, single answer to reducing the unnecessary regulatory burdens on the upstream petroleum sector. A suite of changes will be needed. The Commission's proposals fall into two broad groups: implementing regulatory best practice and reforming institutional arrangements.
- Key recommendations for improving existing regulatory arrangements include:
 - reducing unnecessary delays (particularly for environmental and heritage processes) through setting statutory timelines, ensuring legislative objectives

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- are clear, promoting clear guidelines on information requirements, and introducing a ‘lead agency’ approach for approvals
- clarifying and clearly articulating the objectives for intervention in resource management and ensuring the costs of intervention are the minimum necessary.
 - To cut through regulatory duplication and overlap, the Commission proposes the staged establishment of a new national offshore petroleum regulator to undertake resource management, pipeline and environmental regulation in all Commonwealth, State and Territory waters (including islands).
 - The Australian Government initially would establish the new national offshore petroleum regulator in Commonwealth waters, and then provide State and Territory Governments, on a bilateral basis, the option of conferring their petroleum regulatory responsibilities. States and Territories would also have the option of conferring responsibility for regulating cross-jurisdictional onshore pipelines to this body.
 - The National Offshore Petroleum Safety Authority should remain a separate entity with an exclusive focus on occupational health and safety regulation, with its remit extended to offshore pipelines, subsea equipment and wells. Its geographical coverage should include all Commonwealth, State and Territory waters (including islands).

The Commission also observed that many of the recommendations for ‘best practice’ regulation in its report repeat recommendations made by previous, yet for the most part, unimplemented, reviews. This simply reinforces that strong political will and leadership will be essential if meaningful improvement in the way this sector is regulated across multiple jurisdictions is to be successfully implemented, and sustained.

Inquiry into Government Drought Support

Inquiry Report No 46 signed 27 February 2009, report released 12 May 2009.

The Commission’s main findings and recommendations were:

- Many Australian farmers and rural communities have been experiencing hardship from the latest severe and prolonged drought. While this is not new to dryland farming, ‘irrigation drought’ is uncharted territory.
- Australia has always had a variable climate, with drought being a recurring feature. Looking to the future, experts predict higher temperatures and for some regions, more frequent periods of exceptionally low rainfall.

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- Most farmers are sufficiently self-reliant to manage climate variability.
 - In 2007 08, 23 per cent of Australia's 143 000 farms received drought assistance, totalling over \$1 billion, with some on income support continuously since 2002.
 - However, even in drought declared areas, most farmers manage without assistance. From 2002-03 to 2007-08, on average, about 70 per cent of dairy and broadacre farms in drought areas received no drought assistance.
 - The National Drought Policy's (NDP) Exceptional Circumstance (EC) declarations and related drought assistance programs do not help farmers improve their self-reliance, preparedness and climate change management.
 - EC interest rate subsidies and state-based transactions subsidies are ineffective, can perversely encourage poor management practices and should be terminated.
 - EC household relief payments are limited to those in drought who are in declared areas, ignoring hardship elsewhere or for other reasons. They should be replaced.
 - The EC declaration process is inequitable and unnecessary. It should not be extended to new areas. Current declarations should lapse as soon as practicable.
 - Governments need to commit to a long term reform path that recognises that the primary responsibility for managing risks, including from climate variability and change, rests with farmers. To this end:
 - Research, development, extension, professional advice and training to improve farmers' business management skills and build self-reliance warrant significant government funding where they deliver a demonstrable community benefit.
 - Farm Management Deposits, notwithstanding their use for tax management, have encouraged farmers to save and to be more self-reliant, and should be retained.
 - Policies relating to water, natural resource management and climate change, which all impact on farm businesses and local communities, are often at cross purposes and need to be better coordinated and integrated.
 - All farm households in hardship — regardless of cause or location — should have access to an income support scheme that is designed for farming circumstances.
 - Similar recommendations from the previous reviews of the NDP have not been adopted. To ensure that this new policy direction is credible and enduring:

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- the NDP should be replaced with extended objectives for Australia’s Farming Future
 - an intergovernmental agreement with independent monitoring and financial incentives for complying with agreed commitments should be established.

Restrictions on the Parallel Importation of Books

Research Report completed 30 June 2009, report released 14 July 2009.

On 13 November 2008 the Commission received a reference from the Assistant Treasurer asking it to examine the provisions of the *Copyright Act 1968* that restrict the parallel importation of books into Australia.

In undertaking this study, the Commission was requested to examine the present provisions with respect to the parallel importation of books — which include exceptions to copyright — having regard to, and where possible quantifying:

- the extent to which the provisions promote and achieve the objectives of the Copyright Act;
- whether the provisions amount to a restriction on competition;
- if so, the costs, benefits and effects of the restriction;
- whether the benefits to the community from the present provisions outweigh any costs from restricting competition; and
- any identified options for reform, including non-legislative approaches, and any transitional arrangements.

The Commission’s main findings and recommendations were that:

- Parallel Import Restrictions (PIRs) provide territorial protection for the publication of many books in Australia, preventing booksellers from sourcing cheaper or better value-for-money editions of those titles from world markets.
- From the available quantitative and qualitative evidence, the Commission has concluded that the PIRs place upward pressure on book prices and that, at times, the price effect is likely to be substantial. The magnitude of the effect will vary over time and across book genres.
- Most of the benefits of PIR protection accrue to publishers and authors, with demand for local printing also increased.
- Most of the costs are met by consumers, who fund these benefits in a non-transparent manner through higher book prices.

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- Some of the effects represent transfers from book purchasers to local copyright holders, but the restrictions also cause economic inefficiencies and a significant transfer of income from Australian consumers to overseas authors and publishers.
 - Consumers of culturally significant books directly benefit from their cultural value. At the same time, the PIRs make a contribution to the ‘cultural externalities’ of books that benefit the broader community.
 - PIRs are a poor means of promoting culturally significant Australian works.
 - They do not differentiate between books of high and low cultural value.
 - The bulk of the assistance leaks offshore, and some flows to the printing industry.
 - Reform of the current arrangements is necessary, to place downward pressure on book prices, remove constraints on the commercial activities of booksellers and overcome the poor targeting of assistance to the cultural externalities.
 - The reform option proposed in the discussion draft was for a 12 month territorial protection within the existing framework. Many participants claimed that it would cause undue distortions between different genres of books. There was also mixed, but critical, commentary about its impact on the industry.
 - Having considered industry feedback and undertaken further analysis, the Commission is recommending that the PIR provisions be repealed, and that:
 - Three years notice should be given to facilitate industry adjustment.
 - Current financial assistance for encouraging Australian writing and publishing should be reviewed immediately, and any changes implemented prior to the repeal of the PIRs. The new arrangements should be reviewed after five years.
 - To assist in monitoring the impact of these changes, the ABS should undertake a revised version of its 2003-04 industry survey as soon as possible and update it prior to the five year review.

Annual Review of Regulatory Burdens on Business — Social and Economic Infrastructure Services

Research Report completed 31 August 2009, report released 15 September 2009.

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

The third yearly review reported on regulatory burdens in the social and economic infrastructure services. The Commission's main findings and recommendations were:

- Regulation of the social and economic infrastructure services sector is particularly heavy. This resort to a heavy regulatory presence arises because:
 - regulation is used to promote competitive behaviour where natural monopolies exist, for example, telecommunications and energy
 - of considerable government funding of service delivery, for example, aged care
 - there is information asymmetry with service users, for example, medical services
 - some service recipients, for example, the frail and aged and young children, are seen as vulnerable and requiring protection
 - many businesses in the sector operate across jurisdictions, for example, transport and energy retailers.
- Many industries in this sector are subject to review or reform activity, for example, transport, energy, higher education, telecommunications, aged care and child care. It is important to ensure that the reforms are implemented in a timely fashion and in a way that minimises the regulatory burdens. Much of the reform agenda relies on co-operation between governments. Reforms need to move beyond high level agreement on guiding principles to genuinely reduce the regulatory burden at the individual business level.
- This review has identified seven main areas — aged care, child care, information media, telecommunications, energy, air transport and education — where regulations can be made less burdensome.
- Regulation in aged care
 - without tackling the underlying policy framework that constrains the supply of aged care services, it is unlikely that the regulatory burden in the industry can be substantially reduced. To reduce the burden associated with regulation and price controls, and to improve the quality and diversity of aged care services, the government should explore options for: relaxing supply constraints in the provision of aged care services; providing better information to older people and their families so they can make more meaningful comparisons in choosing an aged care service; and removing the restriction on bonds as a source of funding
 - the aged care regulatory framework is fragmented due to regulation by numerous government agencies. This should be addressed by the current

reviews of the accreditation process and standards in consultation with state and territory agencies. There also needs to be more effective communication with the industry on the delineation of responsibilities between the Department of Health and Ageing and the Aged Care Standards and Accreditation Agency regarding monitoring of provider compliance with these standards.

- Regulation in child care
 - clarify regulations to ensure a provider can have its Child Care Benefit approval removed if it is not accredited by the National Childcare Accreditation Council
 - streamlining of the accreditation arrangements should take place now, prior to the implementation of the proposed COAG reforms.
- Regulation in information media
 - the anti-siphoning regime imposes regulatory burdens because of the protracted commercial negotiations required for listed events. This burden should be reduced by substantially reducing the anti-siphoning list
 - radio local content rules and disclosure standard should both be made more flexible and associated reporting requirements reduced
 - additional local presence and content requirements triggered by ownership changes of radio stations should be abolished
 - the Australian Communications and Media Authority should have broader discretion to not investigate some code complaints.
- Regulation in telecommunications
 - the telecommunications consumer information obligations should be streamlined
 - the identity check requirements for prepaid mobile phones should be revised to lower costs to business while achieving their policy objective of allowing law enforcement agencies to identify mobile phone owners.
- Regulation in the energy sector
 - the Ministerial Council on Energy should commission work to consider the practicalities of implementation of the recently agreed pass-through to consumers of cost increases associated with the Carbon Pollution Reduction Scheme
 - governments should amend the Australian Energy Market Agreement to ensure clearer commitments to competition reviews by the Australian Energy

Market Commission and ongoing price monitoring by the Australian Energy Regulator

- all levels of government need to work cooperatively to reduce the burden associated with excessive reporting obligations, including through the adoption of a methodology consistent with Standard Business Reporting (SBR).
- Regulation in air transport
 - shift from a ‘one size fits all’ approach in aviation security regulation and develop arrangements that satisfy regulatory requirements at lower compliance cost.
- Regulation in education and training
 - reforms to streamline reporting obligations in the education sector, including in response to recommendations from the Bradley Report and the anticipated changes to reporting by schools, should be undertaken consistent with the methodology of the SBR initiative. Electronic reporting and secure on-line sign-on to the agencies involved should be introduced.
- Many industries complained of overly burdensome, duplicative and redundant reporting requirements. Extending the SBR principles and methodology to many of the sectors covered in this review could substantially reduce the reporting burden.
- The best practice regulation requirements should be strengthened by increasing transparency and providing greater scope for consultation with business.

Government responses to reports from previous years

Annual Review of Regulatory Burdens on Business — Primary Sector

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

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

The Commission’s first annual review dealt with regulatory burdens on business in the primary sector, which in broad terms includes agriculture, aquaculture, forestry, fisheries and mining. The report proposed 61 ‘responses’ to industry concerns. The concerns covered a wide range of regulated schemes and activities, ranging from

marketing schemes, infrastructure access and animal welfare through to transport and fish stock preservation.

On 18 December 2008, the Government released a detailed response to the report (Australian Government 2008a). Of the 61 Commission responses, the Government accepted 36 responses and provided in principle acceptance to a further 13 responses.

- The Government stated that eleven responses have been fully actioned, 18 were substantially completed or have reforms underway and reviews are planned or are underway for a further 18. The Government noted that a number of the responses that were substantially completed or have reforms underway were being addressed through the Council of Australian Governments (COAG) Business Regulation and Competition Working Group (BRCWG) or other COAG working groups. These included matters relating to food regulation, a nationally consistent occupational health and safety framework, mine safety regulation, chemicals and plastics regulation, and licences of tradespeople.
- The Government noted four responses and did not accept eight responses. For example, the Government did not support bringing forward the timeframe for the review of reporting thresholds for National Pollution Inventory (NPI) substances from 2012 to 2009. The Government also did not support increasing the monthly earnings threshold for the superannuation guarantee requirements of overseas visitors engaged in casual and seasonal work. In the government's view, maintaining the superannuation guarantee threshold at \$450 a month has led to a steady increase in superannuation coverage and therefore strikes a balance which the Government considered appropriate between concerns regarding compliance costs and retirement income considerations.

Review of Australia's Consumer Policy Framework

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

In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the *Trade Practices Act 1974* and drawing on the recommendations of the Commission and best practice in State and Territory consumer laws (COAG 2008c, p. 2). As part of this new framework:

- The Commonwealth is to assume responsibility for the making of permanent product bans and standards under the *Trade Practices Act 1974*, with the ACCC and States and Territory offices of fair trading sharing responsibility for enforcement of product safety law.

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- Transfer of responsibility of remaining areas of consumer credit to the Commonwealth will occur via a phased implementation plan, following an earlier COAG decision that the Commonwealth would assume responsibility for the regulation of mortgages, mortgage broking, margin lending and all remaining areas of consumer credit, such as pay-day lending and financial counselling services.

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

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

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

Subsequently, on 24 June 2009, the *Trade Practices Amendment (Australian Consumer Law) Bill 2009* was introduced into Commonwealth Parliament to establish the framework for the new Australian Consumer Law and introduce the unfair business to consumer contract terms law and new penalties, enforcement powers and options for consumer redress in the *Trade Practices Act* and the *ASIC Act*.

On 2 July 2009, COAG signed an Intergovernmental Agreement, which included agreement to: a national consumer protection law based on the existing consumer protection provisions of the *Trade Practices Act 1974*; a new national product safety regulatory and enforcement regime; and improved enforcement, cooperation and information sharing arrangements between Commonwealth, State and Territory agencies (COAG BRCWG 2009a).

Legislation to fully implement the new consumer law (including new provisions based on best practice in existing State and Territory laws); and to implement the new national legislative and regulatory framework for product safety, will be introduced in early 2010.

D Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Commission Research Papers, Submissions and Staff Working Papers released in the year. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2008-09, as well as briefings to international visitors.

Commission research papers

Financial performance of government trading enterprises, 2004-05 to 2006-07

July 2008

The study formed part of the Commission's research into the performance of Australian industries and the progress of microeconomic reform. The financial performance of 86 government trading enterprises (GTEs) providing services in key sectors of the economy — including electricity, water, urban transport, rail, ports and forestry — were presented in this report. In 2006-07, these GTEs controlled about 2.8 per cent of Australia's non-household assets (valued at \$192 billion) and accounted for around 1.7 per cent of GDP.

Key points of the study were:

- Overall, the profitability of GTEs increased by 36 per cent in 2006-07, with mixed results across sectors. Profitability increased in the electricity, urban transport and ports sectors, but declined in the rail, water and forestry sectors.
 - For sectors recording a profit improvement, much of this derived from the performance of a single GTE in that sector (between 41 per cent and 63 per cent of increased profits).

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- Profitability also varied among GTEs:
 - profits declined for two-fifths of GTEs
 - fourteen GTEs (of which five were in the water sector) reported losses.
 - Just over half of monitored GTEs failed to achieve a return on assets above the risk free rate of return in 2006-07. This implies that an even greater proportion did not earn a commercial rate of return (which would include a margin for non-diversifiable risk).
 - twelve GTEs (14 per cent) failed to achieve a positive return on their assets.
 - The poor financial performance of many GTEs underscores a long-term failure to operate these businesses on a fully commercial basis, in accordance with Competition Policy Agreements.
 - In total, GTEs made dividend payments to owner-governments of almost \$4.4 billion in 2006-07. In addition, income tax and tax-equivalent payments totalled \$1.8 billion.
 - Contrary to stated policies, not all governments have identified all existing community service obligations (CSOs). Also, governments are generally not reporting funding for CSOs in a transparent manner. Almost no information is reported on the costs of meeting CSOs.
 - Inadequate funding for provision of CSOs affects a GTE's financial performance and can result in inadequate or misallocated investment, price increases for non-CSO services, and/or lower quality service provision.
 - Poor profitability can lead to inadequate investment and asset maintenance, which can in turn reduce the future profitability of GTEs. Without a return to commercially sustainable operations, this cycle can persist.

Trends in Aged Care Services: some implications

September 2008

This report forms part of a series of studies undertaken by the Commission to examine developments in different sectors of the Australian economy. It also built on earlier work by the Commission in the areas of demographic change, health and aged care.

Key points of the study were:

- Over the next 40 years, population ageing and growing diversity among older people — in terms of their care needs, preferences and affluence — are expected to pose a number of challenges to Australia's aged care system. These include:

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- a significant increase in demand — those aged over 85 tend to be the main users of aged care services, and their numbers are expected to increase at least four-fold by 2047
 - the changing pattern of disease among the aged is expected to increase the proportion of frail older people with more complex care needs
 - an increased preference for independent living arrangements supported by community care, and a desire for greater autonomy and choice in aged care services generally
 - many of the aged having higher levels of income and wealth with which to leverage services, although significant numbers — over three quarters of those of age pension age — will continue to be eligible for the age pension
 - needing to secure a significant expansion in the aged care workforce at a time of ‘aged induced’ tightening of the labour market, accentuated by competing demands from the acute care sector.
- The policy implications of these prospective challenges are broad ranging and complex. This study highlights several areas where further analysis seems called for to aid the development of an improved framework for aged care, including:
 - assessing the potential for unbundling residential care (that is, accommodation, everyday living and personal care costs) to better reflect the underlying costs of these services and enable better targeting of public subsidies to those most in need
 - examining the current dual gate-keeping system and the scope to improve it by dispensing with the planning and allocation system (while retaining accreditation) and relying on the entitlement for aged care services established by aged care assessment teams
 - considering the feasibility of introducing ‘consumer-centred’ care arrangements to enhance the potential for older people to influence the nature and scope of the services they receive
 - looking at ways of improving responsiveness in aged care education and training arrangements and extending scopes of practice to overcome inefficiencies and inflexibilities in the workforce.

Submissions

Submission to Infrastructure Australia's National Infrastructure Audit

September 2008

Infrastructure issues and policy settings have been an important part of the work of the Productivity Commission and its predecessors, the Industry Commission and the Industries Assistance Commission. The Commission's focus in this work has primarily been on economic rather than social infrastructure, and on policy and regulatory issues (including in regard to pricing) impinging on efficient infrastructure investment and usage, rather than on assessing the adequacy of the existing infrastructure stock.

Given the tight timeframes involved, the Commission's submission provided a synthesis of the key themes and issues relevant to achieving good infrastructure outcomes that have emerged from its work over the years. These include the need:

- for clear objectives focussed on enhancing efficiency;
- to improve the governance and institutional arrangements shaping the activities of Government Trading Enterprises;
- to further unwind underpricing and non-cost reflective pricing of certain publicly provided infrastructure services;
- to underpin public funding of infrastructure with more rigorous cost-benefit analysis;
- for 'investment-friendly' price and other regulation of privately provided infrastructure;
- for resolution of some outstanding structural (vertical and horizontal integration) issues;
- to recognise and address the challenges in getting public-private infrastructure partnerships 'right', particularly in regard to risk allocation and ensuring sufficient competition amongst potential project proponents; and
- to take account of the impacts of policies in other parts of the economy on efficient infrastructure investment, especially policies pertaining to greenhouse gas abatement.

Staff working papers

Note: The views expressed in staff working papers are those of the authors and do not necessarily reflect the views of the Productivity Commission.

Recent Trends in Australian Fertility

Ralph Lattimore and Clinton Pobke, August 2008

This staff working paper was part of a stream of Productivity Commission research that originates from the Commission's 2005 study for COAG on the Economic Implications of the Ageing of Australia's Population.

Key points were:

- Births in Australia are at an historical high — with around 285 000 babies born in 2007. This corresponds to an estimated total fertility rate of 1.93 babies per woman, the highest since the early 1980s.
 - This is not a one-off event as fertility rates have been generally rising for the last 6 years. Overall, the evidence suggests that after its long downward trend after the Second World War, Australia's fertility rate may have stabilised at around 1.75 to 1.9 babies per woman.
- Much of the recent increase in the fertility rate is likely to reflect the fact that over the last few decades, younger women postponed childbearing and many are now having these postponed babies (so-called 'recuperation'). This has shown up as higher fertility rates for older women.
- However, some of the increase is also likely to be due to a 'quantum' effect — an increase in the number of babies women will ultimately have over their lifetimes. For example, today's young women say they are expecting to have more babies over their lifetime than those five years ago.
- Rising fertility reflects several factors:
 - Buoyant economic conditions and greater access to part-time jobs have reduced the financial risks associated with childbearing and lowered the costs associated with exiting and re-entering the labour market.
 - With more flexible work arrangements, women today are more able to combine participation in the labour force with childrearing roles.
 - A recent increase in the generosity of family benefits (such as family tax benefit A and the 'baby bonus'), though not targeted at fertility, is also likely to have played a part. However, that role has probably only been a modest one. Family policies are more powerful in providing income support,

improving child and parental welfare, and serving other social goals than in affecting fertility rates.

- Overall, Australia appears to be in a ‘safe zone’ of fertility, despite fertility levels being below replacement levels. There is no fertility crisis.
 - Australia’s population should continue to grow at one of the highest rates in the developed world because of migrant inflows.
 - Feasibly attainable increases in fertility would not significantly allay ageing of the population, nor address its fiscal and labour market challenges.

Productivity in the Mining Industry: Measurement and Interpretation

Vernon Topp, Leo Soames, Dean Parham and Harry Bloch, December 2008

The staff working paper examined the productivity of the Australian mining sector and highlighted some significant issues relating to the measurement and interpretation of productivity trends within the sector.

The key points of the paper were:

- Mining typically accounts for around 5 per cent of Australia’s nominal market sector gross domestic product.
 - A ‘once-in-a-generation’ shock to demand for, and prices of, mining commodities saw this share rise to 8.5 per cent in 2006-07, stimulating substantial growth in new investment, employment, and profits.
 - Yet output growth in mining in recent years has been weak at best, and multifactor productivity (MFP) has declined by 24 per cent between 2000-01 and 2006-07.
- Long lead times between investment in new capacity in mining and the associated output response can lead to short term movements in mining MFP unrelated to underlying efficiency.
 - Around one-third of the decline in mining MFP between 2000-01 and 2006-07 is estimated to be due to this temporary effect. This effect was particularly important in the last few years of this period.
- Ongoing depletion of Australia’s natural resource base is estimated to have had a significant adverse effect on long-term mining MFP.
 - In the absence of observed resource depletion, the annual rate of mining MFP growth over the period from 1974-75 to 2006-07 is estimated to have been 2.3 per cent, compared with the measured rate of 0.01 per cent.

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- Over the longer-term, MFP impacts of resource depletion have been offset by technological advances and improved management practices. An increase in the use of open-cut mining has been a key development, along with a general increase in the scale and automation of mining equipment.
 - An expected rebound in mining MFP from 2008-09 onward may be delayed as a consequence of the decline in world prices for many mineral and energy commodities in mid-to-late 2008. Any temporarily idle capital associated with production cut-backs and mine closures will tend to lower MFP. On the other hand, significantly lower commodity prices may lead mining companies to cut costs, with a positive effect on MFP.
 - Despite the impact of the fall in mining MFP, the sector has made a significant contribution to the strong overall growth in national income so far this decade through a substantial improvement in Australia's terms of trade.

Investments in Intangible Assets and Australia's Productivity Growth

Paula Barnes and Andrew McClure, March 2009

This staff working paper examined investment in intangible assets in Australia and highlighted some significant issues relating to the measurement of intangibles and their contribution to productivity.

Key points were:

- Investment in capital is important for economic growth. But capital is not just physical assets; firms also invest in 'soft' capital such as knowledge, firm-specific skills, and better ways of doing business. This investment results in accumulation of 'intangible assets'.
- Intangible assets have been categorised as computerised information, innovative property (including R&D) and economic competencies (including firm-specific human capital and organisational capital), and most are difficult to measure. These assets can depreciate more rapidly than physical capital, but they are investments nonetheless, delivering benefits over time, not just in the period the expenditure was made.
- Many elements of spending on intangibles are treated as a current expense in the national accounts rather than as an investment. This leads to an understatement of investment in the economy. It also may affect measures of multifactor productivity (MFP) growth.
- Applying the methodology of Corrado, Hulten and Sichel (2006) found that intangible investment currently is almost half the size of tangible investment in

the market sector of the Australian economy. While experimental in nature, the estimates suggest that:

- market sector investment in intangibles was \$57 billion in 2005-06, 80 per cent of which is currently not treated as investment in the national accounts
 - average annual growth in intangible investment has been about 1.3 times that of tangibles since 1974-75
 - including intangible investment in total investment largely removes the past downward trend in the market sector ratio of investment to output (gross value added)
 - investments in organisational capital (strategic planning, adaptation and reorganisation) and computerised information have grown at relatively high rates — making up 27 and 13 per cent of intangible investment in 2005-06.
- Treating investment in intangible assets as capital raises measured final output *and* measured capital inputs *and* alters the capital-labour ratio, hence the effect on measured MFP growth is complex. However, in Australia, adjusting for intangible investment not currently included in the national accounts does not have a large direct effect on the level or pattern of conventionally-measured MFP growth.
 - The contribution of these intangibles was 8 per cent of conventionally-measured MFP growth (0.09 of a percentage point) in the last productivity cycle (1998-99 to 2003-04) and 5 per cent (0.13 of a percentage point) in the period of the productivity surge (1993-94 to 1998-99). (This does not include any indirect effects, such as those arising from complementarities between intangibles and other inputs.)
 - This contrasts with the United States, where intangibles accounted for a large share of the productivity acceleration from the mid-1990s, and the United Kingdom, where a slowdown in MFP growth in the 1990s became an acceleration after adjusting for intangible investment.

Public Infrastructure Financing: An International Perspective

Chris Chan, Danny Forwood, Heather Roper and Chris Sayers, March 2009

The study explored the scope for efficient financing to reduce the life-time cost of an infrastructure project and the potential that different financing vehicles have to improve the investment decision. It did not attempt an overall comparative assessment of financing vehicles — many legal, institutional, market environment and project specific factors have to be weighed in making such judgements. Instead,

it assessed the strengths and weaknesses of the different options by comparing the experiences of a number of countries following different approaches.

Key points for the study were:

- General government investment in infrastructure has fallen in recent years for most of the countries in this study, (information is not available to assess whether this is true for public investment more generally). Nevertheless, overall investment in infrastructure has remained fairly steady in recent years, although volatile in some countries.
 - Total Australian investment in infrastructure has rebounded in recent years to just below 6 per cent of GDP in 2006-07. Sub-national governments undertook 76 per cent of public infrastructure investment, with government trading enterprises accounting for around half of this.
 - With the global financial crisis, governments are looking to infrastructure investment as a way of stimulating the economy. But financing options have also been constrained by the crisis.
- Financing decisions are separate from the investment decision and can be made independently. Financing differs from public funding: the latter being the commitment of public revenue to meet any gap between the costs of infrastructure provision and the revenue from user charges. Funding decisions carry an opportunity cost and deadweight loss of raising taxes.
- Budget appropriations, financed on a pay-as-you-go basis or from public debt, remain the major form of financing for government investment in infrastructure (63 per cent in 2006-07). Specific-purpose bonds, where repayment is linked to the performance of the asset, are a major source of finance in the United States and Canada, but were phased out in the 1980s in Australia.
- Public-private partnerships (PPP), where the government contracts a private partner to variously finance, design, build and operate infrastructure assets for a fixed period, are growing in use. Used extensively in the United Kingdom, in Australia they made up 6 per cent of public investment in 2006-07 — higher in New South Wales and Victoria.
- Some approaches used to finance public infrastructure can improve efficiency and lower the life-time project cost through:
 - better management of project risk by aligning incentives for risk management with the capacity to manage the risk
 - improvements in information, contract negotiation and management and other transaction activities that pay-off in better risk management and cost savings

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- bringing greater market or other scrutiny to bear on the investment, and imposing the costs on potential beneficiaries to better reveal their willingness to pay.
 - The most efficient financing vehicle will depend on the nature of the investment, the degree of asymmetry of information, the potential for competition, and the skills of the government as negotiators and contract managers.
 - The potential for governments to shift risk onto private partners is limited, and any non-diversifiable risk assumed by the private sector will be reflected in their required rates of return.
 - PPPs offer considerable potential to reduce project risk, but are costly to transact. If such transactions are off-budget, this may inhibit the scrutiny needed to ensure efficient investment.

Table D.1 Speeches and presentations by the Chairman, Commissioners and staff, 2008-09

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
ANU College of Business and Economics	Building a career on solid foundations	July 2008
The Eidos Institute Breakfast Series, Brisbane	Australia's productivity challenge (and human capital)	Aug 2008
The Colin Clark Memorial Lecture 2008, University of Queensland, Brisbane	Industry policy for a productive Australia	Aug 2008
Concept Economics Seminar, Bowral	Federalism – what needs fixing?	Aug 2008
TAFE Directors' Conference, Canberra	Productivity, human capital and vocational education and training	Sept 2008
Australian-Japan Research Centre Conference on Competition Policy Reform in East Asia, Canberra	Formal Response to keynote speaker – Professor Kotaro Suzumura	Sept 2008
Economic Society of Australian 2008 Conference of Economists, Gold Coast	Evidence-based policy making and the economics profession	Oct 2008
Australian Public Service Commission Leader to Leader Seminar, Canberra	Challenges of evidence-based policy making	Oct 2008
IPAA and Griffith University Australian Federalism Conference, Tenterfield	A seamless national economy – what does it mean?	Oct 2008
OECD Group on Regulatory Policy, Paris	Regulatory Review of China; Regulatory Reform and the Management of Risk	Dec 2008
Melbourne Business School – Leading Policy Reform in Australia, Melbourne	Reducing Regulatory Burdens on Business; Industry Policy in Australia	Jan 2009
ANU Public Lecture Series — Australian & New Zealand School of Government, Canberra	Evidence-based policy: What is it? How do we get it?	Feb 2009
New Zealand Business Roundtable CEO Forum, New Zealand	Productivity Commission and Regulatory Reform in Australia	May 2009
Financial Services Institute of Australian Professional Development Seminar, Forums in Sydney and Melbourne	Executive Remuneration: an update	June 2009
CEDA State of the Nation 2009 Conference, Canberra	Policy Setting Under Current Economic Conditions	June 2009

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Table D.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Commissioners:		
Building Better Boards 4 th National Conference, Sydney (Robert Fitzgerald)	Governing for Tomorrow – conviction, courage and competence	July 2008
Terrapin 13 th Annual National Water 2008, Melbourne (Neil Byron)	National water reform	Aug 2008
Services for Australian Rural and Remote Allied Health 2008 National Conference, Rockhampton (Robert Fitzgerald)	'Many Paddocks – one herd'	Aug 2008
Financial Ombudsman Service Insurance Division National Workshop, Melbourne, (Philip Weickhardt)	The Productivity Commission's Inquiry into Consumer Policy Framework	Aug 2008
CEDA – Urban Water Sustainability — infrastructure and investment, Melbourne (Neil Byron)	The Productivity Commission's report on Towards Urban Water Reform: A Discussion Paper	Sept 2008
Australian Healthcare & Hospitals Association 2008 Congress, Canberra (Mike Woods)	How can workforce reform support the future system?	Sept 2008
SOCAP the Network for consumer professionals 2008 Symposium, Adelaide (Ian Gibbs)	The Productivity Commission's study into Review of the Australian Consumer Product Safety System	Aug 2008
Aged and Community Services Australia 2008 Conference, Adelaide (Mike Woods)	Navigating Regulatory Requirements – Driving growth, investment, regulation and compliance	Sept 2008
Australian Education Union Federal Women's Conference, Melbourne (Angela MacRae)	The Productivity Commission's Inquiry into the Paid Maternity, Paternity and Parental Leave draft report	Oct 2008
Australian Petroleum Production and Exploration Association Environment Conference, Queensland (Philip Weickhardt)	Review of regulatory burden on the upstream petroleum sector	Oct 2008
Unions Tasmania Women's Committee Paid Maternity Leave Forum, Hobart, (Angela MacRae)	The Productivity Commission's Inquiry into the Paid Maternity, Paternity and Parental Leave draft report	Oct 2008
Commissioner for Children and Young People — Children's Week, Perth, (Robert Fitzgerald)	Making a difference in the lives of children	Oct 2008
Australian Government, Insolvency and Trustee Service Australian 7 th National Bankruptcy Congress, Sydney (Robert Fitzgerald)	Credit regulation in Australian and the Productivity Commission's Inquiry into Consumer Policy draft report	Oct 2008

Australian Government Bureau of Rural Sciences — USA-Australia Drought Workshop, Melbourne (Mike Woods)	Drought in a changing climate, sharing management approaches	Nov 2008
ABS NatStats 2008 Conference, Melbourne (Robert Fitzgerald)	Informing the Nation — Measuring Outcomes for Indigenous Australia	Nov 2008
Commissioner for Children and Young People stakeholders, Perth, (Robert Fitzgerald)	Overcoming Indigenous Disadvantage Report	Dec 2008
Australian Education Union Annual Federal Conference, Melbourne, (Angela MacRae)	The Productivity Commission's Inquiry into the Paid Maternity, Paternity and Parental Leave draft report	Jan 2008
Department of Agriculture, Fisheries and Forestry brief to Primary Industries Standing Committee, Melbourne (Neil Byron)	The Productivity Commission's Inquiry into the Government Drought Support draft report	Jan 2009
ACCA/HFMA Australia study tour, Canberra, (Mike Woods)	Demand and supply issues	Feb 2009
UnitingCare Community Options PaCS Launch, Melbourne (Mike Woods)	The Productivity Commission's report into Trends in Aged Care Services: some implications	March 2009
Allen Consulting Group 2009 Politics and Public Policy Review, Canberra (Mike Woods)	Productivity Commission current work program	March 2009
Energy Supply Association of Australia CEO Forum, Werribee (Angela MacRae)	Productivity Commission's Annual Review of Regulatory Burdens on Business: social and economic infrastructure service study	March 2009
Australian Centre for Philanthropy and Non Profit Studies Modernising Charity Law Conference, Brisbane (Robert Fitzgerald)	Charities and the Financial Crisis	April 2009
University of Sydney Graduate School of Government Graduate Diploma and Masters Program in Public Administration, Sydney (Robert Fitzgerald)	Policy in Practice: delivering public value	April 2009
Australian Major Charitable Organisations member meeting, Sydney (Robert Fitzgerald)	Productivity Commission's Study into the Contribution of the Not for Profit Sector	May 2009
WA Department of Racing, Gaming and Liquor 2009 Australasian Casino and Gaming Regulators Conference, Perth (Robert Fitzgerald and Ralph Lattimore)	Productivity Commission's Inquiry into Gambling	May 2009
Department of Treasury Standard Business Reporting Conference, Sydney (Angela MacRae)	Where it all Began	May 2009

(continued on next page)

Table D.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Australian Research Alliance for Children and Youth Seminar, Melbourne (Robert Fitzgerald)	Productivity Commission's Study into the Contribution of the Not for Profit Sector and Overcoming Indigenous Disadvantage Report	May 2009
Australian Securities and Investments Commission Industry Stakeholder Meeting, Sydney (Louise Sylvan)	Behaviour Economics and Financial Literacy	May 2009
Plastics and Chemicals Industries Association National Conference, Melbourne (Mike Woods)	Survive and Thrive: positioning for the Future and the Productivity Commission's Inquiry into Australia's Anti-dumping and Countervailing System	June 2009
The Guild Group Members Dinner, Melbourne (Robert Fitzgerald)	Productivity Commission's Study into the Contribution of the Not for Profit Sector	June 2009
Melbourne Institute of Applied and Social Research — Australia's Future Tax and Transfer System, Melbourne (Angela MacRae)	Australia's Future Tax and Transfer System, Melbourne	June 2009
Staff:		
Australian Public Service Commission, Canberra (Bernard Wonder)	Linking Leaders	July 2008
New Zealand Association of Economists ESAM08 Markets and Models Conference, Wellington, New Zealand (Lou Will)	Policy Frontiers in the AWH Phillips Tradition	July 2008
Canberra Evaluation Forum, Canberra (Peter Daniel)	Evaluation of programs and services for Indigenous people	July 2008
International Productivity and Quality Centre 8 th Annual Indigenous Services Delivery Conference, Alice Springs (Lawrence McDonald)	What do we know about the contribution of mainstream services to outcomes for Indigenous People?	July 2008
Queensland Seminar with State Public Servants, Brisbane (Terry O'Brien and Jenny Gordon)	Evolving role and recent work of the Productivity Commission	Aug 2008
National Employment Services Association Annual Conference, Canberra (Troy Podbury)	The Productivity Commission's staff working paper on part time employment : the Australian experience	Aug 2008
Australian-Japan Research Centre — Competition policy reform in East Asia, Canberra (Paul Grettton)	Assessing the importance of National Economic Reform – the Productivity Commission experience	Sept 2008
Australian-Japan Research Centre's Trade in Services Conference, Canberra (Ian Gibbs)	The Productivity Commission's Inquiry into the Review of Price Regulation of Airports Services	Nov 2008

Aged and Community Care 18 th Annual Tri-State Conference, Melbourne (Ian Monday)	The Productivity Commission's report into Trends in Aged Care Services: some implications	March 2009
Institute of Actuaries Australia and the Australian College of Health Service Executives – Health Financing Course, Canberra (Ian Gibbs)	Demand and supply issues in Australia's health system	March 2009
ABARE National Outlook Conference 2009, Canberra (Bernard Wonder)	Productivity — an economy wide perspective	March 2009
Presidential Council on National Competitiveness & Korea Development Institute International Conference on National Competitiveness, Korea (Terry O'Brien)	Asian Countries' Challenges for National Competitiveness: the experience of Australian	March 2009
Treasury Seminar, Canberra (Paul Belin)	Cost recovery by Australian Government agencies: an outsider's perspective	April 2009
Queensland Gambling Help Service Annual Network Forum, Toowoomba (Rosalie McLachlan)	Productivity Commission's Inquiry into Gambling	April 2009

Table D.2 International delegations and visitors, 2008-09

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Korean Institute of Public Administration	Regulation reform	July 08 (C)
Vietnamese Delegation	The Commission's role, functions and activities	Aug 08 (M)
Mexican Delegation	Australia's experience in assessing the regulatory impact on economic competition and implementing the program developed by the OECD, known as <i>Competition Assessment Toolkit</i>	Aug 08 (C)
Philippine delegation	Australia's National Competition Policy Reforms	Aug 08 (C)
OECD Political Economy of Reform Mission	The political economy of structural reform in Australia	Aug 08 (M/C)
APEC Training Session	The Commission's trade and assistance review (effective rates etc.); use of CGE modelling and recent work on pigmeat	Sep 08 (M/C)
OECD	Structural reforms	Sep 08 (C/M)
Korean Delegation from the Presidential Council on National Competitiveness	The Commission's role and activities	Oct 08 (C)
APEC Finance Centre, Melbourne	The Commission's role and functions	Oct 08 (C)
Budget Affairs Commission of China	Performance evaluation and reporting; public service delivery performance evaluation (social security, health and education etc.)	Oct 08 (M/C)
Delegation from Iraq	The Commission's role and function and trade reform in Australia	Nov 08 (C)
APEC Presentation	Presentation for training course on structural adjustment	Dec 08 (M)
UK Health Finance Executives	Demand and supply issues; demand: technology, ageing; supply: workforce, including flexibility and barriers to entry	Feb 09
OECD	Economic reform issues	Feb 09 (C)
Jocelyne Bourgon, President Emeritus, (Canada School of Public Service)	Public administration (how Governments prepare for the future)	Feb 09 (C)
Ministry of Manpower, Singapore	The Commission's role, responsibilities and labour market issues	Mar 09 (C)
The Hon. Simon Power, (New Zealand Minister)	The trans-Tasman Single Economic market and related issues	Mar 09 (C)

The Hon Kate Wilkinson (NZ Minister for Food Safety); Minister of Labour; Daniel Skinner, (Private Secretary) and Charlotte Beaglehole, (First Secretary, NZ High Commission).	The Commission's work on Business Regulation Benchmarking Studies on food safety and occupational health and safety	Mar 09 (C)
China Australia Governance Program (CAGP) Working Visit	Social security, savings schemes and insurance	May 09 (C)
Chilean Delegation	The Commission's role and activities	May 09 (M)
Bhutan Ministry of Economic Affairs Delegation sponsored by the United Nations Conference on Trade and Development (UNCTAD)	The Commission's Inquiry into Australia's Consumer Policy Framework	May 09 (C)
Development Research Centre of the State Council, People's Republic of China	Restructuring & developing service industries	Jun 09 (C)
2009 International Monetary Fund Article IV Mission to Australia	Competition, regulation reform and human capital reforms	Jun 09 (C)
China-Australia Governance Program (CAGP) China Central Party School (CCPS) Delegation	The inter-governmental fiscal transfer system in a three-tiered governmental system	Jun 09 (C)
OECD delegation	Performance Benchmarking of Australian Business Regulation	Jun 09 (C)
(C) Canberra (M) Melbourne		

E Publications

This appendix provides a list of Commission inquiry and research reports and major speeches by the Chairman in 2008-09. It also lists conference proceedings, staff working papers and other papers, in which the views expressed do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all of its publications. The availability of printed copies is detailed on the website.

Government-commissioned projects

Inquiries and commissioned studies — draft reports

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

- *Performance Benchmarking of Australian Business Regulation: Cost of Business Regulation*, Draft Research Report, 12 September 2008
- *Performance Benchmarking of Australian Business Regulation: Quantity and Quality*, Draft Research Report, 12 September 2008
- *Paid Parental Leave: Support for Parents with Newborn Children*, Inquiry Draft Report, 29 September 2008
- *Government Drought Support*, Draft inquiry report, 30 October 2008
- *Review of Mutual Recognition Schemes*, Draft Research Report, 14 November 2008
- *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*, Draft Research Report, 4 December 2008
- *Restrictions on the Parallel Importation of Books into Australia*, Discussion Paper, 20 March 2009

Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/JS McMillan and the Commission's website. The dates listed are signing dates. Publications marked with an asterisk (*) are yet to be released.

- *Chemicals and Plastics*, Research Report, 28 July 2008
- *Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades*, Research Report, 16 September 2008
- *Performance Benchmarking of Australian Business Regulation: Quantity and Quality*, Research Report, 12 December 2008
- *Performance Benchmarking of Australian Business Regulation: Cost of Business Regulation*, Research Report No. 28, 12 December 2008
- *Review of Mutual Recognition Schemes*, Research Report, 23 January 2009
- *Government Drought Support*, Inquiry Report No. 46, 27 February 2009
- *Paid Parental Leave: Support for Parents with Newborn Children*, Inquiry Report No. 47, 28 February 2009
- *Chemicals and Plastics Regulation: Lessons for National Approaches to Regulation* (Supplement to Research Report), 22 January 2009
- *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*, Research Report, 9 April 2009

Performance reporting

Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent Pirion/JS McMillan and from the Commission's website. Publications produced in 2008-09 and many Secretariat reports from previous years are also available on compact disk.

- *Report on Government Services 2009*, Volume 1: Early Childhood, Education and Training, Justice; Emergency Management (January 2009)
- *Report on Government Services 2009*, Volume 2: health, Community Services, Housing (January 2009)
- *Report on Government Service 2009: Indigenous Compendium* (April 2009)

Competitive neutrality complaints

No competitive neutrality complaints reports were published in 2008-09. Copies of previous investigations are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and Productivity Commission.

Supporting research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publications agent Pirion/JS McMillan, and from the Commission's website. Requests for printed copies of publications marked with an asterisk (*) should be directed to the Commission.

Annual Reports

- *Annual Report 2007-08* (October 2008)
- *Trade & Assistance Review 2007-08* (May 2009)

Commission research papers

- *Financial Performance of Government Trading Enterprises 2004-05 to 2006-07* (July 2008)
- *Trends in Aged Care Services: some implications* (September 2008)

Chairman's speeches

Copies of the following speeches by Gary Banks are available from the Commission's website.

- *Industry Policy for a Productive Australia*, (August 2008)
- *Evidence-based policy-making: What is it? How do we get it?*, (February 2009)

Richard Snape Lecture

The sixth Richard Snape Lecture was held on 18 November 2008. The lecture is available on the Commission's website or Video Stream.

- *Latin America in the Global Economy: Challenges and Opportunities*, Dr Vittorio Corbo, (November 2008)

Conference/workshop proceedings

Papers contained within these proceedings reflect the views of the authors and not necessarily those of the Commission. Copies of the proceedings are available from the Commission's publications agent Pirion/JS McMillan, and from the Commission's website.

- *Promoting Better Environmental Outcomes*, (March 2009)

Staff working papers

Copies of these staff working papers are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *Productivity in the Mining Industry: Measurement and Interpretation* (December 2008)
- *Recent Trends in Australian Fertility* (August 2008)
- *Public Infrastructure Financing: An International Perspective* (March 2009)
- *Investments in Intangible Assets and Australia's Productivity Growth* (March 2009)

Conference papers

Copies of these papers are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *Assessing Productivity in the Delivery of Public Hospital Services in Australia: Some experimental estimates* (March 2009)

Other publications

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

- *PC Update*, a quarterly newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 41, August 2008, Issue 42, December 2008, Issue 43, April 2009)

F Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2008-09.

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

Scope

I have audited the accompanying financial statements of the Productivity Commission (the Commission) for the year ended 30 June 2009, which comprise: a Statement by the Chairman and Chief Finance Officer; Income Statement; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Responsibility of the Chairman for the Financial Statements

The Chairman of the Commission is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of

the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission's Chairman, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

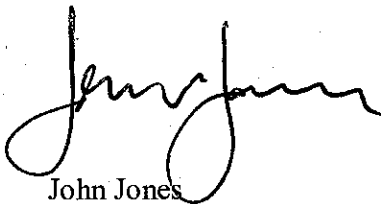
In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial statements of the Productivity Commission:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Productivity Commission's financial position as at 30 June 2009 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



John Jones

Executive Director

Delegate of the Auditor-General

Canberra

21 August 2009



Australian Government
Productivity Commission

GPO Box 1428
Canberra City ACT 2601
Telephone 02 6240 3202
Facsimile 02 6240 3300
www.pc.gov.au

From the Chairman's Office

Statement by the Chairman and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2009 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

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

Gary Banks
Chairman

20 August 2009

A handwritten signature in black ink, appearing to read 'Brian Scammell'.

Brian Scammell
Chief Finance Officer

20 August 2009

Income Statement

for the period ended 30 June 2009

		2009	2008
	Notes	\$'000	\$'000
Income			
Revenue			
Revenue from Government	3A	31,621	32,389
Sale of goods and rendering of services	3B	<u>694</u>	<u>226</u>
Total revenue		<u>32,315</u>	<u>32,615</u>
Gains			
Sale of assets	3C	7	–
Other gains	3D	<u>34</u>	<u>33</u>
Total gains		<u>41</u>	<u>33</u>
Total Income		<u>32,356</u>	<u>32,648</u>
Expenses			
Employee benefits	4A	23,082	22,984
Suppliers	4B	7,016	8,244
Depreciation and amortisation	4C	1,145	1,052
Finance costs	4D	28	34
Write-down and impairment of assets	4E	491	–
Losses from asset sales	4F	<u>–</u>	<u>127</u>
Total Expenses		<u>31,762</u>	<u>32,441</u>
Surplus		<u>594</u>	<u>207</u>

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

Balance Sheet

as at 30 June 2009

		2009	2008
	Notes	\$'000	\$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	224	288
Trade and other receivables	5B	<u>11,784</u>	<u>9,188</u>
Total financial assets		<u>12,008</u>	<u>9,476</u>
Non-Financial Assets			
Land and buildings	6A	3,191	4,407
Infrastructure, plant and equipment	6B	953	1,260
Intangibles	6C	100	61
Other non-financial assets	6E	<u>516</u>	<u>475</u>
Total non-financial assets		<u>4,760</u>	<u>6,203</u>
Total Assets		<u>16,768</u>	<u>15,679</u>
LIABILITIES			
Payables			
Suppliers	7A	463	623
Other payables	7B	<u>331</u>	<u>249</u>
Total payables		<u>794</u>	<u>872</u>
Provisions			
Employee provisions	8A	7,808	7,263
Other provisions	8B	<u>507</u>	<u>479</u>
Total provisions		<u>8,315</u>	<u>7,742</u>
Total Liabilities		<u>9,109</u>	<u>8,614</u>
Net Assets		<u>7,659</u>	<u>7,065</u>
EQUITY			
Contributed equity		2,858	2,858
Reserves		1,725	1,725
Retained earnings		<u>3,076</u>	<u>2,482</u>
Total Equity		<u>7,659</u>	<u>7,065</u>
Current Assets		12,524	9,951
Non-Current Assets		4,244	5,728
Current Liabilities		7,876	7,646
Non-Current Liabilities		1,233	968

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

Statement of Changes in Equity

as at 30 June 2009

Item	Retained earnings		Asset revaluation reserve		Contributed equity		Total equity	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance								
Balance carried forward from previous period	2,482	2,275	1,725	1,725	2,858	2,396	7,065	6,396
Adjusted opening balance	2,482	2,275	1,725	1,725	2,858	2,396	7,065	6,396
Income and expenses								
Income and expenses recognised directly in equity	-	-	-	-	-	-	-	-
Surplus (Deficit) for the period	594	207	-	-	-	-	594	207
Total income and expense	594	207	-	-	-	-	594	207
Transactions with owners								
Contributions by Owners								
Appropriation (equity injection)	-	-	-	-	-	462	-	462
Sub-total transactions with owners	-	-	-	-	-	462	-	462
Closing balance as at 30 June	3,076	2,482	1,725	1,725	2,858	2,858	7,659	7,065

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

Cash Flow Statement

for the period ended 30 June 2009

		2009	2008
	Notes	\$'000	\$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		743	1,453
Appropriations		29,030	33,675
Net GST received from ATO		<u>729</u>	<u>1,249</u>
Total cash received		<u>30,502</u>	<u>36,377</u>
Cash used			
Employees		22,465	23,069
Suppliers		<u>7,956</u>	<u>9,918</u>
Total cash used		<u>30,421</u>	<u>32,987</u>
Net cash from (used by) operating activities	9	<u>81</u>	<u>3,390</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		<u>7</u>	<u>16</u>
Total cash received		<u>7</u>	<u>16</u>
Cash Used			
Purchase of property, plant and equipment		<u>152</u>	<u>4,490</u>
Total cash used		<u>152</u>	<u>4,490</u>
Net cash from (used by) investing activities		<u>(145)</u>	<u>(4,474)</u>
FINANCING ACTIVITIES			
Cash received			
Appropriations – contributed equity		<u>-</u>	<u>1,147</u>
Total cash received		<u>-</u>	<u>1,147</u>
Cash Used			
Other cash used		<u>-</u>	<u>-</u>
Total cash used		<u>-</u>	<u>-</u>
Net cash from (used by) financing activities		<u>-</u>	<u>1,147</u>
Net increase (decrease) in cash held		(64)	63
Cash and cash equivalents at the beginning of the reporting period		<u>288</u>	<u>225</u>
Cash and cash equivalents at the end of the reporting period	5A	<u>224</u>	<u>288</u>

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

Schedule of Commitments

as at 30 June 2009

	2009	2008
	\$'000	\$'000
BY TYPE		
Commitments receivable		
GST recoverable on commitments	<u>(1,551)</u>	<u>(1,885)</u>
Total commitments receivable	<u>(1,551)</u>	<u>(1,885)</u>
Other commitments		
Operating leases ¹	16,091	19,239
Other commitments ²	<u>975</u>	<u>1,499</u>
Total other commitments	<u>17,066</u>	<u>20,738</u>
Net commitments by type	<u>15,515</u>	<u>18,853</u>
BY MATURITY		
Commitments receivable		
GST recoverable on commitments		
One year or less	(285)	(293)
From one to five years	(769)	(866)
Over five years	<u>(497)</u>	<u>(726)</u>
Total GST recoverable on commitments	<u>(1,551)</u>	<u>(1,885)</u>
Operating lease commitments		
One year or less	2,683	2,689
From one to five years	7,938	9,099
Over five years	<u>5,470</u>	<u>7,451</u>
Total operating lease commitments	<u>16,091</u>	<u>19,239</u>
Other commitments		
One year or less	454	538
From one to five years	521	427
Over five years	<u>-</u>	<u>534</u>
Total other commitments	<u>975</u>	<u>1,499</u>
Net commitments by maturity	<u>15,515</u>	<u>18,853</u>

NB: Commitments are GST inclusive where relevant.

¹ Operating leases included are effectively non-cancellable and comprise:

Leases for office accommodation

Lease payments are subject to fixed annual increase in accordance with the lease agreement. In Melbourne, the current lease expiry is 30 June 2011. In Canberra the current lease commenced on 1 August 2007 and expires on 30 April 2017, with a five year option.

Agreements for the provision of motor vehicles to senior executive officers

Lease payments are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

² Other commitments are primarily contracts for office services.

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

Notes to and forming part of the Financial Statements

Note	Description
1	Summary of Significant Accounting Policies
2	Events after the Balance Sheet Date
3	Income
4	Expenses
5	Financial Assets
6	Non-Financial Assets
7	Payables
8	Provisions
9	Cash Flow Reconciliation
10	Contingent Liabilities and Assets
11	Executive Remuneration
12	Remuneration of Auditors
13	Financial Instruments
14	Appropriations
15	Special Accounts
16	Compensation and Debt Relief
17	Reporting of Outcomes

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of the Productivity Commission

The Productivity Commission (the Commission) is an Australian Public Service organisation. The Commission is the Australian Government's principal review and advisory body on microeconomic policy and regulation.

The Commission is structured to meet a single outcome:

Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

The Commission's single outcome consists of 4 outputs:

- Output 1 – Government commissioned projects;
- Output 2 – Performance reporting and other services to government bodies;
- Output 3 – Competitive neutrality complaints activities; and
- Output 4 – Supporting research and activities and annual reporting.

Activities contributing toward these outcomes are classified as departmental. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Commission in its own right.

The continued existence of the Commission in its present form and with its present programs is dependent on Government policy and on continuing appropriations by Parliament for the Commission's administration and programs.

1.2 Basis of Preparation of the Financial Report

The Financial Statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2008; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with historical cost convention, except for certain assets at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Commission or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Income Statement when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the Commission has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements has been taken to be the fair value of similar leasehold improvements as determined by an independent valuer.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.4 Changes in Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

Future Australian Accounting Standard Requirements

New standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

1.5 Revenue

Revenue from Government

Amounts appropriated for departmental output appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue when the Commission gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

Other Types of Revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the seller retains no managerial involvement nor effective control over the goods;
- the revenue and transactions costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Commission.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to the Commission.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

1.6 Gains

Other Resources Received Free of Charge

Resources received free of charge are recognised as gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government agency or authority as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7).

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Sale of Assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as ‘equity injections’ for a year (less any formal reductions) are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.8 Employee Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees’ remuneration at the estimated salary rates that applied at the time the leave is taken, including the Commission’s employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by use of the Australian Government Actuary's shorthand method using the Standard Commonwealth sector probability profile. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2009.

Superannuation

Staff of the Commission are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

The Commission makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Commission's employees. The Commission accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions in respect for the final fortnight of the year.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property, or, if lower, the present value of minimum lease payments at the inception of the contract and a liability recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

1.10 Cash

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

1.11 Financial Assets

The Commission classifies its financial assets in the following categories:

- financial assets as at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Income Statement.

1.12 Financial Liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities.

Financial liabilities are recognised and derecognised upon ‘trade date’.

Supplier and other payables

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.13 Contingent Liabilities and Contingent Assets

Contingent Liabilities and Contingent Assets are not recognised in the Balance Sheet but are reported in the relevant notes. They may arise from uncertainty as to the existence of an asset or liability or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Details of each class of contingent liabilities and contingent assets are disclosed in Note 10: Contingent Liabilities and Assets.

1.14 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

1.15 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to ‘makegood’ provisions in property leases taken up by the Commission where there exists an obligation to ‘makegood’ premises. These costs are included in the value of the Commission’s leasehold improvements with a corresponding provision for the ‘makegood’ recognised.

Revaluations

Fair values for each class of asset are determined as shown below:

<i>Asset class</i>	<i>Fair value measured at</i>
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets’ fair values at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the operating result. Revaluation decrements for a class of asset are recognised directly through the operating result except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2009	2008
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years
Intangibles (Computer Software)	5 years	5 years
Leasehold make-good	Lease term	Lease term

Impairment

All assets were assessed for impairment at 30 June 2009. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Commission were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

1.16 Intangibles

The Commission's intangibles comprise commercially purchased software. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Commission's software are 5 years (2007-08: 5 years).

All software assets were assessed for indicators of impairment as at 30 June 2009.

1.17 Taxation

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

Note 2: Events after the Balance Sheet Date

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.

Note 3: Income**Revenue***Note 3A: Revenue from Government*

	2009	2008
	\$'000	\$'000
Appropriation:		
Departmental outputs	<u>31,621</u>	<u>32,389</u>
Total revenue from Government	<u>31 621</u>	<u>32,389</u>

Note 3B: Sale of goods and rendering of services

	2009	2008
	\$'000	\$'000
Provision of goods - related entities	-	-
Provision of goods - external parties	1	22
Rendering of services - related entities	642	58
Rendering of services - external parties	<u>51</u>	<u>146</u>
Total sales of goods and rendering of services	<u>694</u>	<u>226</u>

Gains*Note 3C: Sale of assets*

	2009	2008
	\$'000	\$'000
Infrastructure, plant and equipment		
Proceeds from sale	7	-
Carrying value of assets sold	-	-
Selling expense	<u>-</u>	<u>-</u>
Net gain from sale of assets	<u>7</u>	<u>-</u>

Note 3D: Other gains

	2009	2008
	\$'000	\$'000
Resources received free of charge	<u>34</u>	<u>33</u>
Total other gains	<u>34</u>	<u>33</u>

Note 4: Expenses

Note 4A: Employee benefits

	2009	2008
	\$'000	\$'000
Wages and salaries	18,326	18,494
Superannuation		
Defined contribution plans	499	431
Defined benefit plans	2,541	2,594
Leave and other entitlements	1,716	1,465
Separation and redundancies	<u>-</u>	<u>-</u>
Total employee benefits	<u>23,082</u>	<u>22,984</u>

Note 4B: Suppliers

	2009	2008
	\$'000	\$'000
Provision of goods - related entities	-	1
Provision of goods - external parties	236	488
Rendering of services - related entities	418	148
Rendering of services - external parties	3,697	4,806
Operating lease rentals – external parties:		
Minimum lease payments	2,632	2,731
Workers compensation premiums	<u>33</u>	<u>70</u>
Total supplier expenses	<u>7,016</u>	<u>8,244</u>

Note 4C: Depreciation and amortisation

	2009	2008
	\$'000	\$'000
Depreciation:		
Leasehold improvements	667	533
Infrastructure, plant and equipment	402	445
Total depreciation	<u>1,069</u>	<u>978</u>
Amortisation:		
Leasehold make-good	58	59
Intangibles:		
Computer software	18	15
Total amortisation	<u>76</u>	<u>74</u>
Total depreciation and amortisation	<u><u>1,145</u></u>	<u><u>1,052</u></u>

Note 4D: Finance costs

	2009	2008
	\$'000	\$'000
Unwinding of discount	28	34
Total finance costs	<u>28</u>	<u>34</u>

Note 4E: Write-down and impairment of assets

	2009	2008
	\$'000	\$'000
Asset writedowns from:		
Impairment of property, plant & equipment	491	-
Impairment of intangible assets	-	-
Total write-down and impairment of assets	<u>491</u>	<u>-</u>

An impairment of property, plant & equipment (leasehold improvement) was recognised in respect of office space no longer occupied by the Commission.

Note 4F: Losses from asset sales

	2009	2008
	\$'000	\$'000
Land and buildings:		
Proceeds from sale	-	-
Carrying value of assets sold	-	127
Selling expense	-	-
Infrastructure, plant and equipment:		
Proceeds from sale	-	(16)
Carrying value of assets sold	-	16
Selling expense	-	-
Intangibles:		
Proceeds from sale	-	-
Carrying value of assets sold	-	-
Selling expense	-	-
Total losses from asset sales	<u>-</u>	<u>127</u>

Note 5: Financial Assets

Note 5A: Cash and cash equivalents

	2009	2008
	\$'000	\$'000
Cash on hand or on deposit	<u>224</u>	<u>288</u>
Total cash and cash equivalents	<u>224</u>	<u>288</u>

Note 5B: Trade and other receivables

	2009	2008
	'000	\$'000
Goods and services – related entities	127	86
Goods and services – external parties	<u>18</u>	<u>19</u>
Total receivables for goods and services	<u>145</u>	<u>105</u>
Appropriations receivable:		
for existing outputs	10,702	8,979
for additional outputs	<u>868</u>	<u>-</u>
Total appropriations receivable	<u>11,570</u>	<u>8,979</u>
GST receivable from the Australian Taxation Office	<u>69</u>	<u>104</u>
Total trade and other receivables	<u>11,784</u>	<u>9,188</u>
Receivables are represented by:		
Current	11,784	9,188
Non-current	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>11,784</u>	<u>9,188</u>
Receivables are aged as follows:		
Not overdue	11,773	9,135
Overdue by:		
30 to 60 days	-	52
More than 90 days	<u>11</u>	<u>1</u>
Total receivables	<u>11,784</u>	<u>9,188</u>

Note 6: Non-Financial Assets**Note 6A: Land and buildings**

	2009	2008
	\$'000	\$'000
Leasehold improvements		
- fair value	4,797	4,855
- accumulated depreciation	(1,115)	(448)
- accumulated impairment losses	<u>(491)</u>	<u>-</u>
Total leasehold improvements	<u>3,191</u>	<u>4,407</u>
Total land and buildings (non-current)	<u>3,191</u>	<u>4,407</u>

Note 6B: Infrastructure, plant and equipment

	2009	2008
	\$'000	\$'000
Infrastructure, plant and equipment		
Gross carrying value (at fair value)	1,762	1,678
Accumulated depreciation	<u>(809)</u>	<u>(418)</u>
Total infrastructure, plant and equipment	<u>953</u>	<u>1,260</u>
Total infrastructure, plant and equipment (non-current)	<u>953</u>	<u>1,260</u>

No indicators of impairment were found for infrastructure, plant and equipment.

Note 6C: Intangibles

	2009	2008
	\$'000	\$'000
Computer software at cost		
Purchased	524	471
Accumulated amortisation	<u>(424)</u>	<u>(410)</u>
Total intangibles (non-current)	<u>100</u>	<u>61</u>

No indicators of impairment were found for intangible assets.

*Note 6D: Analysis of property, plant and equipment, and intangibles**TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment (2008-09)*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total</i>
	\$'000	\$'000	\$'000
As at 1 July 2008			
Gross book value	4,855	1,678	6,533
Accumulated depreciation/amortisation and impairment	<u>(448)</u>	<u>(418)</u>	<u>(866)</u>
Net book value 1 July 2008	<u>4,407</u>	<u>1,260</u>	<u>5,667</u>
Additions:			
By purchase	-	95	95
Depreciation/amortisation expense	(725)	(402)	(1,127)
Impairments recognised in the operating result	(491)	-	(491)
Disposals:			
Other disposals	<u>-</u>	<u>-</u>	<u>-</u>
Net book value 30 June 2009	<u>3,191</u>	<u>953</u>	<u>4,144</u>
Net book value as of 30 June 2009 represented by:			
Gross book value	4,797	1,762	6,559
Accumulated depreciation/amortisation and impairment	<u>(1,606)</u>	<u>(809)</u>	<u>(2,415)</u>
	<u>3,191</u>	<u>953</u>	<u>4,144</u>

TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment (2007-08)

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total</i>
	\$'000	\$'000	\$'000
As at 1 July 2007			
Gross book value	1,286	1,125	2,411
Accumulated depreciation/amortisation and impairment	-	-	-
Net book value 1 July 2007	<u>1,286</u>	<u>1,125</u>	<u>2,411</u>
Additions:			
By purchase	3,840	596	4,436
Depreciation/amortisation expense	(592)	(445)	(1,037)
Impairments recognised in the operating result	-	-	-
Other movements - adjustment to provision for makegood	<u>(127)</u>	<u>(16)</u>	<u>(143)</u>
Net book value 30 June 2008	<u>4,407</u>	<u>1,260</u>	<u>5,667</u>
Net book value as of 30 June 2008 represented by:			
Gross book value	4,855	1,678	6,533
Accumulated depreciation/amortisation and impairment	<u>(448)</u>	<u>(418)</u>	<u>(866)</u>
	<u>4,407</u>	<u>1,260</u>	<u>5,667</u>

TABLE B - Reconciliation of the opening and closing balances of intangibles (2008-09)

<i>Item</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000
As at 1 July 2008		
Gross book value	471	471
Accumulated depreciation/amortisation and impairment	<u>(410)</u>	<u>(410)</u>
Net book value 1 July 2008	<u>61</u>	<u>61</u>
Additions:		
By purchase	57	57
Depreciation/amortisation expense	<u>(18)</u>	<u>(18)</u>
Net book value 30 June 2009	<u>100</u>	<u>100</u>
Net book value as of 30 June 2009 represented by:		
Gross book value	524	524
Accumulated depreciation/amortisation and impairment	<u>(424)</u>	<u>(424)</u>
	<u>100</u>	<u>100</u>

TABLE B - Reconciliation of the opening and closing balances of intangibles (2007-08)

<i>Item</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000
As at 1 July 2007		
Gross book value	463	463
Accumulated depreciation/amortisation and impairment	<u>(441)</u>	<u>(441)</u>
Net book value 1 July 2007	<u>22</u>	<u>22</u>
Additions:		
By purchase	54	54
Depreciation/amortisation expense	<u>(15)</u>	<u>(15)</u>
Net book value 30 June 2008	<u>61</u>	<u>61</u>
Net book value as of 30 June 2008 represented by:		
Gross book value	471	471
Accumulated depreciation/amortisation and impairment	<u>(410)</u>	<u>(410)</u>
	<u>61</u>	<u>61</u>

Note 6E: Other non-financial assets

	2009	2008
	\$'000	\$'000
Prepayments	<u>516</u>	<u>475</u>
Total other non-financial assets	<u>516</u>	<u>475</u>

All other non-financial assets are current assets.

No indicators of impairment were found for other non-financial assets.

Note 7: Payables

Note 7A: Suppliers

	2009	2008
	\$'000	\$'000
Trade creditors	<u>463</u>	<u>623</u>
Total supplier payables	<u>463</u>	<u>623</u>
Supplier payables – related entities are represented by:		
Current	65	83
Non-current	-	-
Supplier payables – external parties are represented by:		
Current	398	540
Non-current	<u>-</u>	<u>-</u>
Total supplier payables	<u>463</u>	<u>623</u>

Settlement is usually made net 30 days.

Note 7B: Other Payables

	2009	2008
	\$'000	\$'000
Salaries and wages	282	191
Superannuation	<u>49</u>	<u>58</u>
Total other payables	<u>331</u>	<u>249</u>

Note 8: Provisions*Note 8A: Employee provisions*

	2009	2008
	\$'000	\$'000
Leave	<u>7,808</u>	<u>7,263</u>
Total employee provisions	<u>7,808</u>	<u>7,263</u>
Employee provisions are represented by:		
Current	7,082	6,774
Non-current	<u>726</u>	<u>489</u>
Total employee provisions	<u>7,808</u>	<u>7,263</u>

The classification of current includes amounts for which there is not an unconditional right to defer settlement by one year, hence in the case of employee provisions the above classification does not equal the amount expected to be settled within one year of reporting date. Employee provisions expected to be settled in twelve months from the reporting date are \$2,585,000 (2008: \$3,516,000), and in excess of one year \$5,223,000 (2008: \$3,747,000).

Note 8B: Other provisions

	2009	2008
	\$'000	\$'000
Restoration obligations	<u>507</u>	<u>479</u>
Total other provisions	<u>507</u>	<u>479</u>
Other provisions are represented by:		
Current	-	-
Non-current	<u>507</u>	<u>479</u>
Total other provisions	<u>507</u>	<u>479</u>

	Provision for restoration
	\$'000
Carrying amount 1 July 2008	<u>479</u>
Amount paid on makegood	-
Unwinding of discount	<u>28</u>
Closing balance 2009	<u>507</u>

The Commission currently has 1 agreement for the leasing of premises which has a provision requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made provision to reflect the present value of this obligation. (2007-08: 1 agreement)

Note 9: Cash Flow Reconciliation

	2009	2008
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Report Cash and Cash Equivalents as per:		
Cash Flow Statement	224	288
Balance Sheet	<u>224</u>	<u>288</u>
Difference	<u>=</u>	<u>=</u>
Reconciliation of operating result to net cash from operating activities:		
Operating result	594	207
Depreciation / amortisation	1,145	1,052
Finance costs	28	34
Net write-down of non-financial assets	491	-
(Gain) / loss on disposal assets	(7)	127
(Increase) / decrease in net receivables	(2,596)	2,057
(Increase) / decrease in prepayments	(41)	(165)
Increase / (decrease) in employee provisions	545	17
Increase / (decrease) in supplier payables	(160)	189
Increase / (decrease) in other payables	82	-
Increase / (decrease) in other provisions	<u>-</u>	<u>(128)</u>
Net cash from / (used by) operating activities	<u><u>81</u></u>	<u><u>3,390</u></u>

Note 10: Contingent Liabilities and Assets

At 30 June 2009, to the best of its knowledge, the Commission was not exposed to any unrecognised contingencies that would have any material effect on the financial statements.

Note 11: Executive Remuneration

	2009	2008
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	2	2
\$145,000 to \$159,999	5	2
\$160,000 to \$174,999	-	1
\$175,000 to \$189,999	3	2
\$190,000 to \$204,999	1	5
\$205,000 to \$219,999	5	4
\$220,000 to \$234,999	3	1
\$235,000 to \$249,999	3	2
\$250,000 to \$264,999	2	1
\$265,000 to \$279,999	1	3
\$280,000 to \$294,999	1	-
\$310,000 to \$324,999	1	1
\$355,000 to \$369,999	<u>1</u>	<u>1</u>
Total	<u>28</u>	<u>25</u>
The aggregate amount of total remuneration of executives shown above	\$6,021,702	\$5,415,321
The aggregate amount of separation and redundancy/termination payments during the year to executives shown above	-	-

Note 12: Remuneration of Auditors

	2009	2008
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Commission.		
The value of the services provided was:	<u>34</u>	<u>33</u>
	<u>34</u>	<u>33</u>

No other services were provided by the Auditor-General.

Note 13: Financial Instruments

Note 13A: Categories of financial instruments

	2009	2008
	\$'000	\$'000
Financial Assets		
Loans and receivables		
Cash and cash equivalents	224	288
Trade receivables	<u>145</u>	<u>105</u>
Carrying amount of financial assets	<u>369</u>	<u>393</u>
Financial Liabilities		
Other liabilities		
Payables – suppliers	<u>463</u>	<u>623</u>
Carrying amount of financial liabilities	<u>463</u>	<u>623</u>

Note 13B: Net income and expense from financial assets

There is no income or expense from financial assets – loans and receivables in the year ending 30 June 2009. (2008: nil)

Note 13C: Net income and expense from financial liabilities

There is no income or expense from financial liabilities – payables in the year ending 30 June 2009. (2008: nil)

Note 13D: Fair value of financial instruments

There are no financial instruments held at 30 June 2009 where the carrying amount is not a reasonable approximation of fair value. (2008: nil)

Note 13E: Credit Risk

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total of trade

receivables (2009: \$145,000 and 2008: \$105,000). The Commission has assessed that there is no the risk of default on payment.

The Commission manages its credit risk by mainly dealing with other government agencies.

The Commission holds no collateral to mitigate against credit risk.

No financial instruments were impaired in 2009 (2008: nil).

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 5B.

Note 13F: Liquidity Risk

The Commission's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the Commission will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to the Commission (eg. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Commission is appropriated funding from the Australian Government. The Commission manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Commission has policies in place to ensure timely payments are made when due and has no past experience of default.

All financial liabilities mature within one year (2008: one year).

Note 13G: Market Risk

The Commission holds basic financial instruments that do not expose the Commission to certain market risks.

The Commission is not exposed to currency risk, other price risk or interest rate risk.

Note 14: Appropriations**Table A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations**

Particulars	Departmental Outputs	
	2009	2008
	\$'000	\$'000
Balance carried forward from previous period	9,371	11,237
<i>Appropriation Act:</i>		
<i>Appropriation Act (No 1) as passed</i>	30,753	34,443
<i>Appropriation Act (No 3) as passed</i>	-	-
Reductions of appropriations (Appropriation Act section 10)	-	(150)
<i>FMA Act:</i>		
Repayments to the Commonwealth (<i>FMA s.30</i>)	52	-
Appropriations to take account of recoverable GST (<i>FMA s.30A</i>)	694	1,323
Relevant agency receipts (<i>FMA s.31</i>)	698	1,412
Adjustment of appropriations on change of entity function (<i>FMA s.32</i>)	-	(2,564)
Total appropriations available for payments	41,568	45,701
Cash payments made during the year (GST inclusive)	(30,573)	(36,330)
Balance of authority to draw cash from the Consolidated Revenue Fund for ordinary annual services appropriations	<u>10,995</u>	<u>9,371</u>
Represented by:		
Cash at bank and on hand	224	288
Departmental appropriations receivable	10,702	8,979
GST receivable from the ATO	69	104
Adjustments under s101.13 of the Finance Minister's Orders not reflected above	-	-
Total as at 30 June	<u>10,995</u>	<u>9,371</u>

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 24 June 2008, the Finance Minister determined a reduction in departmental outputs appropriations following a request by the Treasurer. The amount of the reduction determined under Appropriation Act (No.1) of 2007-08 was \$150,000.

Table B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Other than Ordinary Annual Services Appropriations

Particulars	Non-operating				Total	
	Equity		Previous Years' Outputs			
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance carried forward from previous period	-	685	-	-	-	685
<i>Appropriation Act:</i>						
<i>Appropriation Act (No 2) as passed</i>	-	462	-	-	-	462
<i>Appropriation Act (No 4) as passed</i>	-	-	-	-	-	-
<i>FMA Act:</i>						
Appropriations to take account of recoverable GST (<i>FMA s.30A</i>)	-	-	-	-	-	-
Total appropriations available for payments	-	1,147	-	-	-	1,147
Cash payments made during the year (GST inclusive)	-	(1,147)	-	-	-	(1,147)
Balance of authority to draw cash from the Consolidated Revenue Fund for other than ordinary annual services appropriations	-	-	-	-	-	-
Represented by:						
Cash at bank and on hand	-	-	-	-	-	-
Appropriations receivable	-	-	868	-	868	-
Adjustments under s101.13 of the Finance Minister's Orders not reflected above	-	-	(868)	-	(868)	-
Total as at 30 June	-	-	-	-	-	-

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

In accordance with s101.10 and s101.13 of the Finance Minister's Orders, the Productivity Commission has recognised as revenue and appropriation receivable an additional appropriation relating to the 2008-09 year to be received in 2009-10 as previous years' outputs. This amount is reflected in the 2009-10 Appropriation Bills and Portfolio Budget Statements.

Note 15: Special Accounts

The Commission has an Other Trust Monies Special Account and a Services for other Governments and Non-Agency Bodies Account. Both accounts were established under section 20 of the *Financial Management and Accountability Act 1997*. For the years ended 30 June 2000-2009 the accounts had nil balances and there were no transactions debited or credited to them.

The purpose of the Other Trust Monies Special Account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. Any money held is thus special public money under section 16 of the *Financial Management and Accountability Act 1997*.

The purpose of the Services for other Governments and Non Agency Bodies Special Account is for expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the *Financial Management and Accountability Act 1997*.

Note 16: Compensation and Debt Relief

In both 2008-09 and 2007-08, no expenses and/or provisions in relation to the following compensation and debt relief mechanisms were made during the reporting period:

- (a) 'Act of Grace' expenses;
- (b) waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*;
- (c) ex-gratia payments;
- (d) payments under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme; and
- (e) payments in special circumstances relating to APS employment pursuant to section 73 of the *Public Service Act 1999*.

Note 17: Reporting of Outcomes

Note 17A: Net Cost of Outcome Delivery

	Outcome 1	
	2009	2008
	\$'000	\$'000
Expenses		
Departmental	<u>31,762</u>	<u>32,441</u>
Total expenses	<u>31,762</u>	<u>32,441</u>
Costs recovered from provision of goods and service to the non government sector		
Departmental	<u>52</u>	<u>168</u>
Total costs recovered	<u>52</u>	<u>168</u>
Other external income		
Departmental	<u>642</u>	<u>58</u>
Total other external income	<u>642</u>	<u>58</u>
Net cost of outcome	<u>31,068</u>	<u>32,215</u>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

Note 17B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1.1						Outcome 1			
	Output 1.1.1		Output 1.1.2		Output 1.1.3		Output 1.1.4		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses										
Employees	15,838	15,785	2,792	2,650	144	158	4,308	4,391	23,082	22,984
Suppliers	4,755	5,813	1,058	972	29	33	1,174	1,426	7,016	8,244
Depreciation and amortisation	773	705	157	138	7	6	208	203	1,145	1,052
Other	332	108	83	21	3	1	101	31	519	161
Total departmental expenses	21,698	22,411	4,090	3,781	183	198	5,791	6,051	31,762	32,441
Funded by:										
Revenues from government	21,602	22,375	4,072	3,775	182	198	5,765	6,041	31,621	32,389
Sales of goods and services	474	157	89	26	4	1	127	42	694	226
Other non-taxation revenues	29	23	5	4	-	-	7	6	41	33
Total departmental revenue	22,105	22,555	4,166	3,805	186	199	5,899	6,089	32,356	32,648

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

Note 17B: Major Classes of Departmental Assets and Liabilities by Outcome

	<i>Outcome 1</i>	
	<i>2009</i>	<i>2008</i>
	<i>\$'000</i>	<i>\$'000</i>
Departmental assets		
Cash and cash equivalents	224	288
Trade and other receivables	11,784	9,188
Land and buildings	3,191	4,407
Infrastructure, plant and equipment	953	1,260
Intangibles	100	61
Other non-financial assets	516	475
Total departmental assets	16,768	15,679
Departmental Liabilities		
Suppliers	463	623
Other payables	331	249
Employee provisions	7,808	7,263
Other provisions	507	479
Total departmental liabilities	9,109	8,614

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

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