



Australian Government
Productivity Commission

Annual Report 2014-15

Productivity Commission
Annual Report Series



© Commonwealth of Australia 2015

ISSN 2205-5681 (online)

ISSN 2205-5673 (print)



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An appropriate reference for this publication is:

Productivity Commission 2015, *Annual Report 2014-15*, Annual Report Series, Canberra.

Publications enquiries

Media and Publications, phone: (03) 9653 2244 or email: maps@pc.gov.au

The Productivity Commission

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

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

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).



Australian Government
Productivity Commission

8th October 2015

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2014-15. 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


Peter Harris
Chair


Patricia Scott
Deputy Chair


Ken Baxter
Commissioner

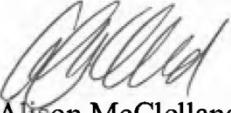

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Commissioner


Melinda Cilento
Commissioner


Jonathan Coppel
Commissioner


Paul Lindwall
Commissioner


Angela MacRae
Commissioner


Alison McClelland
Commissioner


Warren Mundy
Commissioner



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Deputy Chair



Alison McClelland
Commissioner



Angela MacRae
Commissioner



Jonathan Coppel
Commissioner



Karen Chester
Commissioner



Ken Baxter
Commissioner



Melinda Cilento
Commissioner



Paul Lindwall
Commissioner



Warren Mundy
Commissioner

Acknowledgments

In memory of former Commissioner Helen Owens (1948 – 2014) and former long-term Commission official Steven Argy (1962 – 2015).

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

Foreword

2014-15 saw the Commission commence six new inquiries or studies and complete five commissioned in 2013-14. Government has responded to two of the completed inquiries.

We also completed our second Flagship research project on Public Housing Assistance and Employment. It provided a surprising conclusion, somewhat against prevailing thinking, demonstrating the better understanding that can be had if governments and Departments would invest more in making major holdings of administrative data accessible.

The Commission also initiated and completed policy-relevant research on superannuation policy post-retirement - asking and answering when and how people access their super and the policy implications. The report concluded that there remains a need, not immediate but near term, for a holistic review of retirement incomes policies.

We held a health roundtable involving 25 practitioners and experts and providing 22 proposals for immediate efficiency gains in this crucial area. One proposal has been clearly taken up. More may be under consideration.

The *Trade and Assistance Review*, a long-established statutory publication on the use of trade policy and industry assistance, received slightly more than usual attention in an environment of promotion of the benefits of bilateral preferential trade agreements and the mooted Trans-Pacific Partnership (TPP). The debate was also characterised by a lack of transparent and robust analysis, a vacuum consequently filled at times by misleading claims.

The lack of awareness in the community of the nature of bilateral agreements remains at this time a matter of some contention, as it has been from time to time throughout the history of the Productivity Commission and its forebears.

It would be consistent with the Australian economic record of success via relatively open multilateral processes and Economic Statements explaining (occasional) unilateral reduction in trade and other barriers to improve public awareness through development and release of relevant analysis in advance of policy outcomes.

History, however, also indicates that change in this area is often not immediate.

Peter Harris
Chair

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ALGA	Australian Local Government Association
ANAO	Australian National Audit Office
ANU	Australian National University
ANZSIC	Australian and New Zealand Standard Industrial Classification
ANZSOG	Australia and New Zealand School of Government
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
BRCWG	Business Regulation and Competition Working Group (COAG)
CEDA	Committee for Economic Development of Australia
COAG	Council of Australian Governments
CRC	COAG Reform Council
EFIC	Export Finance and Investment Corporation
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTEs	Government trading enterprises
HILDA	Household, Income and Labour Dynamics
IAC	Industries Assistance Commission
IC	Industry Commission
ICTs	Information and communication technologies
IMF	International Monetary Fund
LP	labour productivity
MFP	multifactor productivity
NATSEM	National Centre for Social and Economic Modelling
NBN	National Broadband Network

NCP	National Competition Policy
NRA	National Reform Agenda
OECD	Organisation for Economic Cooperation and Development
OHS	Occupation health and safety
OID	Overcoming Indigenous Disadvantage report
PBS	Pharmaceutical Benefits scheme
PC	Productivity Commission
RBA	Reserve Bank of Australia
R&D	Research and development
ROGS	Report on Government Services
SES	Senior Executive Service
TCF	Textiles, clothing and footwear

1 Review of Commission activities and performance

Some highlights from 2014-15

- published government-commissioned reports on:
 - Childcare and early childhood learning
 - Access to justice
 - Natural disaster funding
 - Public infrastructure
 - Costs of doing business in dairy manufacturing and retail trade
- published a second flagship research report, on housing assistance and employment
- held a roundtable on efficiency in health
- released research papers on gas markets, international tourism, international education services, and superannuation policy
- published the twentieth edition of the annual Report on Government Services and the latest editions of the Overcoming Indigenous Disadvantage: Key Indicators report and the Indigenous Expenditure Report
- released a variety of other supporting research, including papers on productivity measurement and concepts

Some areas of focus for 2015-16

- current inquiries and government-commissioned research:
 - Workplace relations framework
 - Migrant intake into Australia
 - Business set-up, transfer and closure
 - Public safety mobile broadband
 - Service exports
 - Mutual recognition schemes
 - Intellectual property arrangements
- a third flagship research paper on the housing choices of older Australians
- Report on Government Services
- research on taxes and transfers and Anti-Dumping arrangements

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. Its remit covers all sectors of the economy, with a view to better informing policy making to raise national productivity and living standards.

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.

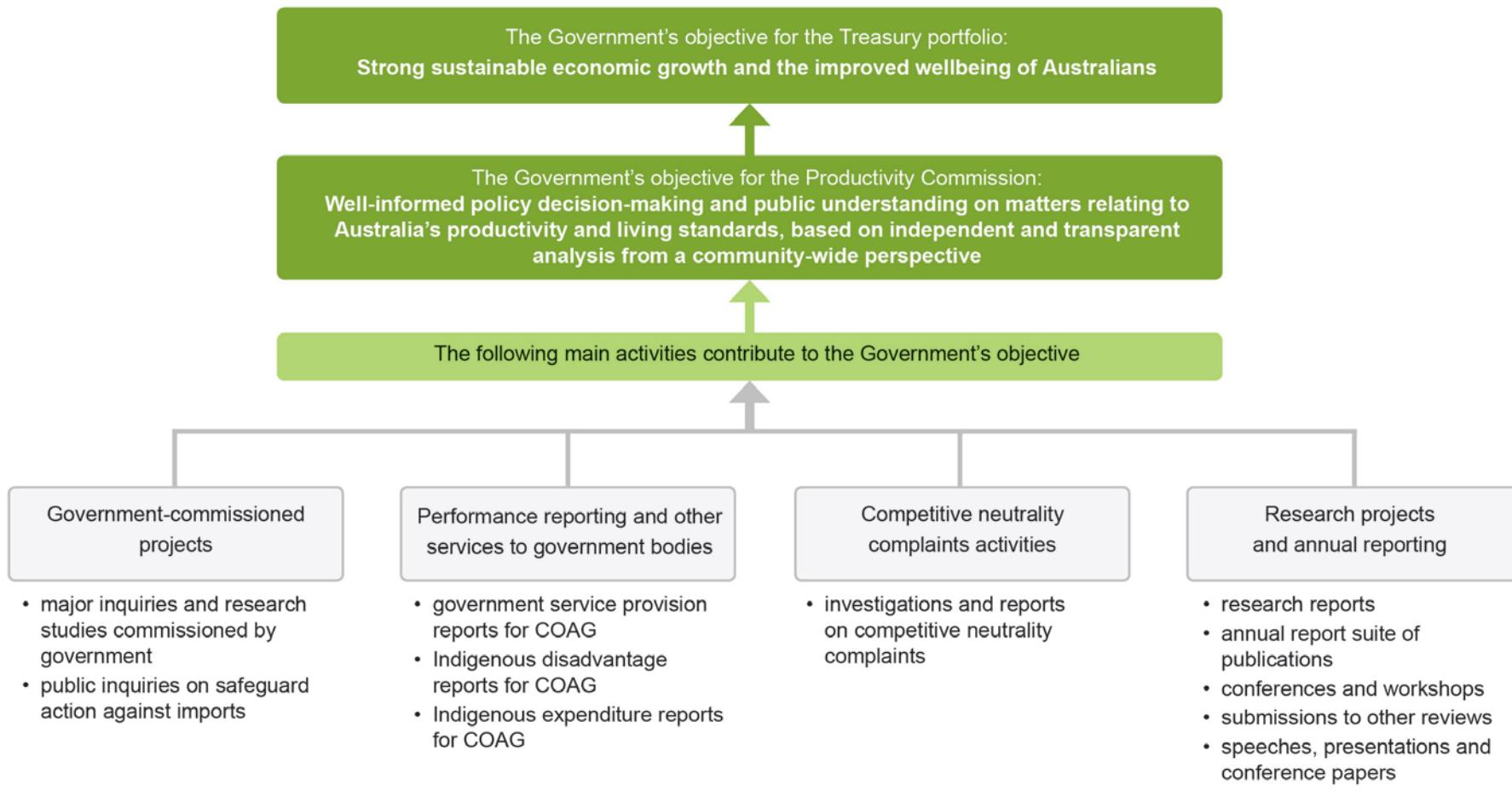
The Commission pursues this in four broad work streams:

- government-commissioned inquiries or studies
- other research projects and a statutory analysis of industry support
- performance reporting and related analysis of Commonwealth and State service provision
- competitive neutrality complaints (figure 1.1).

Appendices B, C and D provide further detail on recent projects.

The Commission also gained responsibility for a number of important new water reporting and inquiry functions. This includes conducting periodic inquiries on the Murray-Darling Basin Plan and water resource plans; and periodic inquiries on progress towards achieving the objectives and outcomes of the National Water Initiative.

Figure 1.1 Productivity Commission main activities 2014-15



Year in review

Public inquiries and commissioned studies

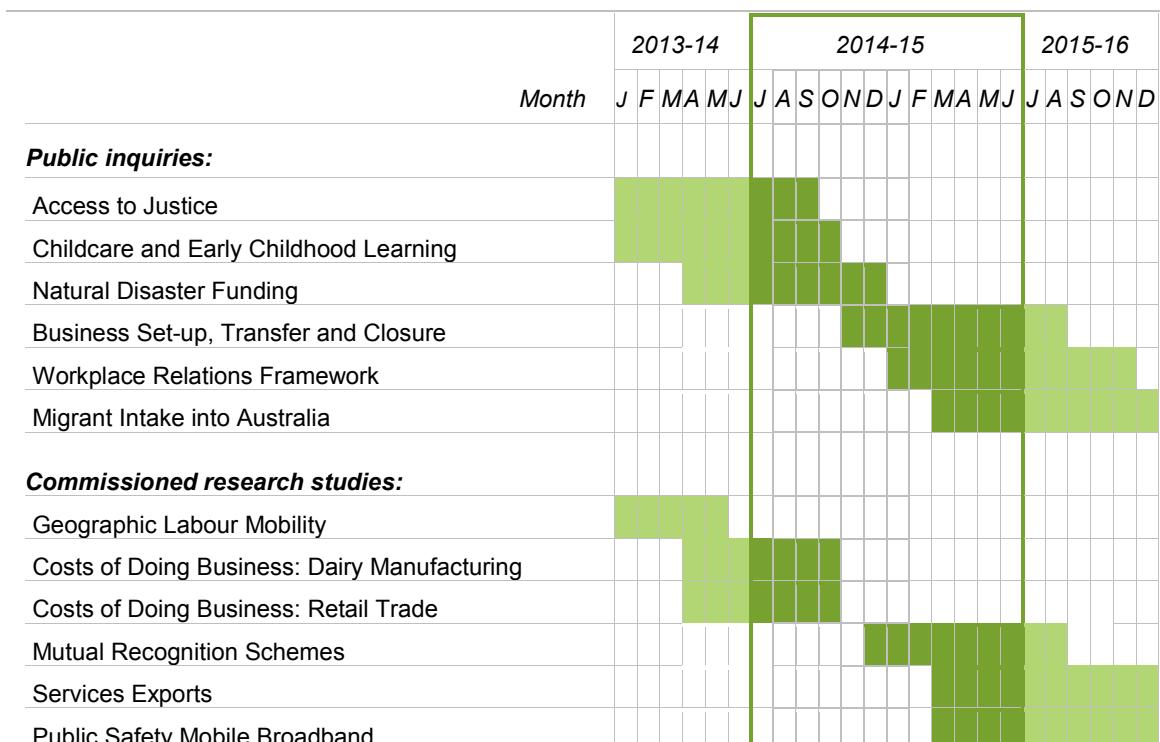
There were six public inquiries and five research studies underway at some point during 2014-15 (table 1.1 and figure 1.2).

The Commission completed three inquiries commenced in 2013-14 on access to justice, childcare and early childhood learning and natural disaster funding.

References were received during the year from the Australian Government for six new projects.

- On 20 November 2014, the Commission was asked to do an inquiry into business set-ups, transfers and closures. The inquiry was to analyse the nature and scale and extent of barriers to entry and exit that currently exist for businesses and their impact on economic performance. It was also to identify appropriate options for reducing entry and exit barriers. A final report was provided on 30 September 2015.
- The Commission received a reference for a nine month review of mutual recognition arrangements on 11 December 2014. It was to include consideration of the coverage, efficiency and effectiveness of the Mutual Recognition Agreement and Trans-Tasman Mutual Recognition Agreement; recommend ways to improve inter-jurisdictional movement of goods and skilled workers and reduce red tape; and consider how to address any use-of-goods requirements that are restricting the sale of goods under the MRA and TTMRA. The report was released on 25 September 2015.
- On 19 December 2014, the Commission was asked to undertake an inquiry to examine the performance of the workplace relations framework and identify improvements to it. It is to review the impact of the workplace relations framework on matters including: unemployment, underemployment and job creation; fair and equitable pay and conditions for employees; small businesses; productivity, competitiveness and business investment; the ability of business and the labour market to respond appropriately to changing economic conditions; patterns of engagement in the labour market; the ability for employers to flexibly manage and engage with their employees; barriers to bargaining; red tape and the compliance burden for employers; industrial conflict; and the appropriate scope for independent contracting. A final report is to be provided to Government by November 2015.

Table 1.1 Program of public inquiries and other government-commissioned projects^a

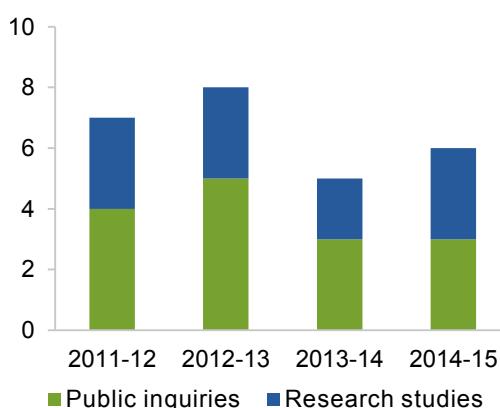


^a Shaded area indicates the approximate duration of the project in the period covered by the table

- On 4 March 2015, the Commission was asked to undertake a nine month research study into barriers to growth in Australian services exports. It is to consider recent trends in services exports by Australian suppliers; examine the barriers to growth in Australian services exports, and assess the economic benefits of reducing or removing these barriers; and examine the experience of other economies in developing policy approaches in this area.
- On 20 March 2015, the Commission was asked to conduct a twelve month inquiry on migrant intake into Australia. It is to use evidence from Australia and overseas to report on the benefits and costs of permanent migration; the scope to use alternative methods for determining the intake of permanent migrants; benefits and costs of temporary migration, with an examination of the use of

Figure 1.2 Projects on hand

Number as at 30 June



-
- charges as the primary basis for regulating level and composition; and mechanisms for achieving an optimal interaction between temporary and permanent migration.
- A nine-month study into public safety mobile broadband commenced on 25 March 2015. The study is to provide a 'first principles' analysis of the most efficient, effective and economical way of delivering mobile broadband capability to Australia's public safety agencies by 2020. It is also to consider the most cost-effective combination of private and public inputs, services and expertise to deliver the capability; and look at issues such as national interoperability across jurisdictions and agencies.

The Commission also finalised two studies commenced in the previous year on the costs of doing business in dairy manufacturing and retail trade.

Appendix B provides further information on public inquiries and commissioned studies undertaken during 2014-15 and government responses to the Commission's reports.

Performance reporting and other services to government bodies

The Commission has provided secretariat services to the Steering Committee for the Review of Government Service Provision since the Review's commencement in 1993. The collaborative efforts of more than 80 Commonwealth, State and Territory government agencies contribute to the Steering Committee's major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage: Key Indicators report; and the Indigenous Expenditure Report.

Report on Government Services

The *Report on Government Services 2015* was the twentieth in this series. The Report provides comparative performance information on 18 government service delivery areas that contribute to the wellbeing of Australians — spanning child care, education and training, health, justice, community services, emergency management, housing and homelessness. The services covered in the 2015 Report collectively account for \$184 billion of government recurrent expenditure, equivalent to about 12 per cent of GDP.

The 2015 Report included new indicators and measures for several service areas. There were also improvements in accessibility by extending the staggered release of the seven volumes from one to two weeks, and changes to make information easier to find on the relevant web pages. The publication now is fully electronic.

Overcoming Indigenous Disadvantage: Key Indicators

The *Overcoming Indigenous Disadvantage: Key Indicators* report measures the wellbeing of Aboriginal and Torres Strait Islander Australians. The latest report was released in November 2014 and is the sixth edition of the report commissioned by COAG in 2002.

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.

The 2014 report, which incorporates all National Indigenous Reform Agreement (NIRA) indicators and targets, provides comprehensive information on the nature and extent of disadvantage and enables comparative assessment of trends in outcomes over time. Aboriginal and Torres Strait Islander Australians were actively involved in producing it through the consultation and review processes and representation on the advisory group through the National Congress of Australia's First Peoples.

Major developments implemented for the 2014 report included:

- broadening the focus from 'overcoming disadvantage' to 'improving wellbeing' and addressing Indigenous conceptions of wellbeing (including new indicators Aboriginal and Torres Strait Islander Australians advised were important to them)
- traffic light reporting on progress against the indicator framework
- a section on the historical context for Aboriginal and Torres Strait Islander Australians since colonisation
- review by Aboriginal and Torres Strait Islander reviewers with expertise in relevant subject areas
- more rigour in selection of case studies on 'Things That Work', including to provide useful insights to individual programs working in particular areas where national results may show otherwise.

Indigenous Expenditure Report

COAG agreed to the reporting of Indigenous expenditure in 2007, and the Productivity Commission assumed secretariat responsibilities from November 2008. The latest Indigenous Expenditure Report was published in December 2014, and is the third in a series following publication in 2010 and 2012.

The Indigenous Expenditure Report contributes to governments' understanding of the levels and patterns of expenditure on services that relate to Aboriginal and Torres Strait Islander Australians.

Although the report itself does not attempt to assess the adequacy, effectiveness or efficiency of government expenditure (outside the terms of reference for this report), when combined with other data, the estimates can provide a better understanding of these issues.

The 2014 report provides estimates of government expenditure across 159 expenditure categories. Expenditure is presented on both mainstream and Indigenous-specific services, at

the state and territory level by each level of government, for the years 2008-09, 2010-11 and 2012-13. For the first time for the 2014 report, a database was developed allowing creation of customised tables.

National Agreement reporting

The Productivity Commission supports the provision of information to assess performance against the six National Agreements agreed by COAG under the Intergovernmental Agreement on Federal Financial Relations. During 2014-15, the Steering Committee collated performance information for the NIRA, and incorporated applicable indicators and data from the other five National Agreements in its Report on Government Services.

Competitive neutrality complaints activities

Competitive neutrality policy seeks to ensure that government businesses do not have advantages (or disadvantages) over private sector counterparts simply by virtue of their public ownership.

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) operates as a separate unit within the Commission. Its function is to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received no formal written complaints in 2014-15.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2014-15, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

Other research activities and annual reporting

The Commission is required under its Act to undertake research to complement its other activities. It undertakes research to support its 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. It must also report annually on matters such as the effects of assistance and regulation.

The Commission's research program is guided by government statements on policy priorities, including potential commissioned work; parliamentary debate and committee work; and informal and formal consultations with Australian Government departments, business, community and environmental groups, union bodies and academics.

The Commission undertook a number of research projects during the year. In April 2015, it released a flagship research report exploring the links between housing assistance – social housing and Commonwealth Rent Assistance – and employment. It used large administrative datasets at both Commonwealth and State level to examine the links.

The Commission initiated its own short-term research studies into policy topics during 2014-15 on gas; tourism; international education services; superannuation policy in the post-retirement phase; and taxes and transfers. These pieces of work were published to contribute to current policy debates, with objective data and some ideas or concepts to address public policy issues.

Several reports on productivity, including a Productivity Update and a staff research note on productivity concepts and measurement, were also published.

Further information on the Commission's research activities and publications in 2014-15 is provided in appendix C. This also details the 93 presentations given by the Chair, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences, which covered the gamut of the Commission's inquiry, research and performance reporting work (table C.1).

International activities

The Commission briefed six international delegations and visitors during 2014-15, with a focus on the Commission's role and activities and related policy matters (table C.2).

The Commission also received funding from the Australian Government to undertake a visit program for government officials in APEC, ASEAN and East Asia Summit economies across 2014-15. As part of the program, visits to Australia were conducted during the year by officials from Lao PDR and Mexico and members of the Commission's staff participated in capacity building activities that assist developing economies in furthering their structural reform plans.

In 2015-16, the Commission will continue to maintain linkages with policy agencies in other countries, with a focus on APEC, ASEAN and East Asia Summit member economies.

An initiative by the OECD to develop a productivity reform project across like-minded members was also considered by the Commission. Development of this initiative is continuing. The impetus for it is, in substantial part, sourced to concerns about a slowdown in productivity growth across the developed world.

Transparency and public consultation

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

Open inquiry procedures

The Commission conducts public hearings, allows public access to the submissions made to its inquiries, and publishes draft and final inquiry reports. During its inquiry activities in 2014-15, the Commission met with more than 200 organisations or groups, held 14 days of public hearings, and received around 950 submissions.

The Commission has adapted its processes to suit the variety of studies commissioned by the Government and provides a range of opportunities for participants or experts to comment on its analytic frameworks, preliminary findings and, where relevant, draft recommendations. For example, the Commission received around 130 submissions to these studies in 2014-15, with many visit programs and targeted roundtable discussions to engage with stakeholders.

Our self-initiated policy research projects seek, with some constraints, to replicate these processes — roundtables, peer review sessions and data-gathering via direct contact with firms, agencies, departments and NGOs are part of this process.

The nature of consultative and transparent processes in the past year is illustrated in box 1.1. These included some innovations to ensure that the views and experiences of a diverse range of stakeholders could be taken into account.

Box 1.1 Participative and transparent processes

Innovative approaches to consultation were apparent, mixing old and new formats, in the Commission's inquiry into childcare and early childhood development. The Commission provided facilities on the inquiry website for interested stakeholders to lodge a short email comment. A total of 729 comments were received prior to the release of the draft report. 464 formal submissions were also received prior to the release of the draft report. On release of the draft report in July 2014, the Commission used a series of short YouTube clips to outline its approach and key recommendations. A further 444 submissions were received after the draft report, and 8 days of public hearings and 4 days of roundtables were held. In total, 1173 online comments were received across the course of the inquiry.

During the inquiry into natural disaster funding arrangements, extensive and innovative consultation processes were also apparent. The Commission conducted over 60 meetings prior to the draft report with interested parties in each state and territory, and including regional areas. Video and teleconferences were conducted with international stakeholders. There was strong participant interest in the pre-draft roundtables and post-draft public hearings. The roundtables in particular provided a valuable opportunity for different stakeholders to contest others' ideas. The public hearings offered an opportunity to delve deeper and clarify certain issues. The inquiry received 227 submissions, with many being larger submissions, including from academics/researchers, insurers, local government associations and state and territory governments.

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 access wider sources of expertise in its inquiries and research. From time to time, the Commission also uses specialist external expertise.

In November 2014, the Commission organised a health policy roundtable attended by around 25 experts from government, the private sector and academia. The resulting research paper found that there are significant opportunities to improve the efficiency of Australia's health care system through reforms that can be delivered without changing existing institutional and funding structures, and without delay.

There is an active seminar program involving external experts on a range of policy issues relevant to the Commission's work. These seminars are intended to bring new ideas and stimulate debate within the Commission, as well as to foster networks with academic and other experts of relevance to the Commission's work. During the year, there were seminars on a range of topics, including knowledge spillovers, unfair dismissal arbitration, bilateral and regional trade agreements, mutual recognition, economic growth and energy, and intellectual property.

There is also a Visiting Researcher Program which seeks to attract established researchers with an outstanding research record in areas related to the Commission's priority research themes and activities. In 2014-15 Dr Larry Cook was a Visiting Researcher.

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, in 2014-15:

- A number of Commissioners were members of various advisory boards and committees and non-profit organisations, including the Brotherhood of St Laurence, Reconciliation Australia, the Royal Aeronautical Society and the Australian Institute of Company Directors.
- Members of staff served on a range of bodies including the ABS Productivity Measurement Reference Group, the ABS Analytical Reference Group and the OECD Working Party on Industry Analysis.

e Government and the Commission's communications approach

As a significant research and advisory body with statutory responsibilities related to communicating the results of its work, the Commission uses web-based tools to provide access to our information.

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.

The Commission has a Twitter account (<https://twitter.com/ozprodcom>) to advise of report releases and forthcoming activities, with over a thousand followers. The Twitter account is also a source of public feedback for the Commission.

The Commission's website received over 30 million file requests from external users in 2014-15 (figure 1.3). There were more than 155 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2014-15. The projects of most interest were childcare (52 731 requests), Australia's workplace relations framework (24 674) and natural disaster funding (16 840).

Other heavily accessed web pages were for the 2014 and 2015 *Report on Government Services* (21 263 and 25 863 requests, respectively) and the 2014 *Overcoming Indigenous Disadvantage: Key Indicators* report (27 733 requests).

Speeches by the Commission's Chair attracted more than 3 200 requests over the year.

Feedback on the Commission's work

The Commission monitors reaction to, and seeks feedback on, its work in order to improve its performance and its contribution to public understanding and policy making.

In addition to its rolling program of surveys, less formal sources of feedback on the public record are also monitored. 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.

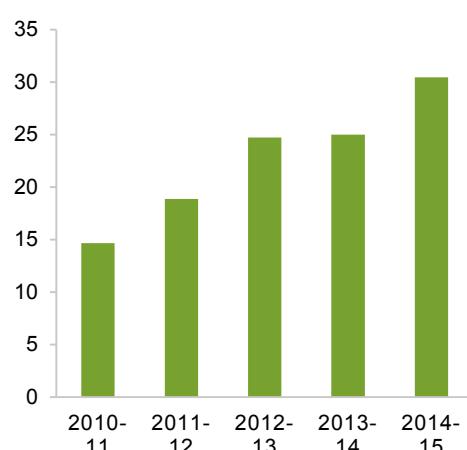
The Commission systematically offers recipients of its reports and users of its website the opportunity to provide feedback. The website has provision for sending comments via email and an online survey form and the Commission provides a publication feedback card in reports for mailing comments.

Policy and wider impacts

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

Figure 1.3 Website hits

Millions



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. 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. 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.

Influence on government policy-making

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

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

- The Australian Government released a response to the Commission's report on automotive manufacturing on 26 August 2014, which provided support or in-principle support for most of the recommendations. This included support for recommendations to repeal the Automotive Transformation Scheme; to not extend the Green Car Innovation Fund; to accelerate harmonising Australian Design Rules with internationally prevailing UNECE standards; and to abolish Australian Government fleet procurement policies that favour the purchase of locally-made vehicles.
- In October 2014, the Government released its Regulator Performance Framework as part of its 2014 Spring Repeal Day. The Framework was described as an important part of the Government's commitment to reduce the cost of unnecessary or inefficient regulation imposed on individuals, business and community organisations. In announcing the framework, the Hon Josh Frydenberg MP stated:

This Framework builds on the Regulator Audit Framework released by the Productivity Commission on 19 March 2014. (Frydenburg 2014)

- The Australian Government released a response to the Commission's report on Public Infrastructure on 1 December 2014. The Government agreed to recommendations covering improved institutional and governance arrangements; project selection and design; procurement models; and reforms to labour and construction markets.
- On 13 March 2015, the Australian Government released its response to the Commission's report on Tasmanian shipping and freight. The report considered the operation of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme. The response stated that:

Noting the intention of the Australian Government to retain the schemes, the Productivity Commission has put forward recommendations to improve their operation. (Australian Government 2015).

The Government supported 9 of the report's 20 recommendations, and provided partial support for a further 4 recommendations.

- On 1 May 2015 the Australian Government released an interim response to the Commission's report on natural disaster funding (Keenan 2015). The response stated:

Importantly, the Productivity Commission report... raises a number of issues – including the need for better land use planning, and improved risk data and information sharing – which should be carefully considered by state and local governments.

The Government indicated that it would therefore provide a full response to the Commission's final report following these consultations.

Formal responses to a number of reports, including Access to Justice and Childcare, remain outstanding. More information on recent government responses to Commission reports are in appendix B.

Governments need not accept the Commission's advice. 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. 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.

Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2014-15 sittings of the *Federal Parliament*:

- 132 Members and Senators referred to 58 different Commission reports or inquiries, or to the Commission's role in policy processes
- in around three quarters of the mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source
- Commission inquiries and reports which featured most prominently were those on childcare, public infrastructure and Australia's automotive industry.

In addition, there were 159 mentions of the Commission and its work in the Hansard proceedings of *Federal Parliamentary Committees* in 2014-15. The Commission was mentioned in the proceedings of 24 different committees, most prominently in proceedings of the Senate Standing Committee on Economics and the House of Representatives Standing Committees on Economics and Infrastructure and Communications. The most

frequent mentions were to the reports on infrastructure and bilateral and regional trade agreements.

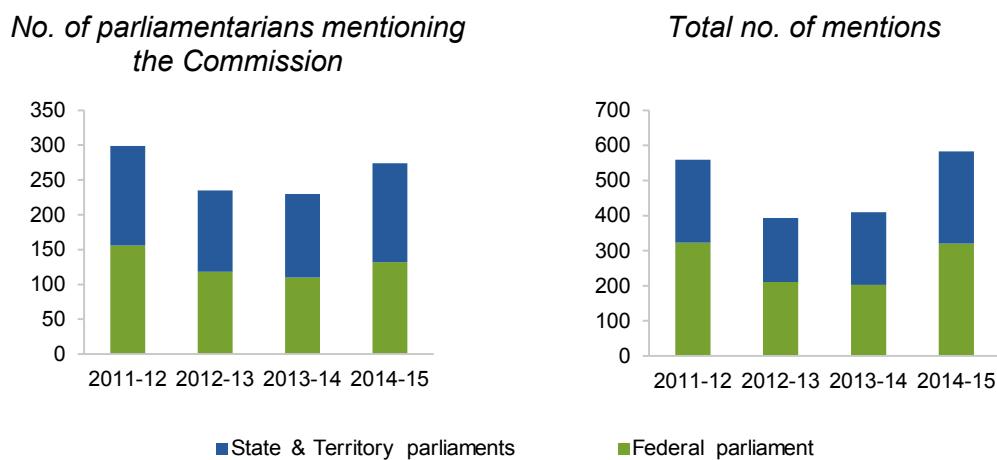
Parliamentary committees and the Parliamentary Library drew on a range of Commission inquiry and research outputs in their own reports and briefing materials during the year (table B.1). Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

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 2014-15 sittings of the eight state and territory parliaments:

- 142 members referred to 37 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes
- in 70 per cent of the 263 mentions in debates and questions, state and territory parliamentarians cited the Commission as an authoritative source, while less than 4 per cent of mentions were critical of a particular finding, report or Commission attribute
- the most frequent mentions were to the Report on Government Services, with the Commission's reports on childcare, public infrastructure and local government also featuring prominently.

Recent trends in mentions of the Commission in federal, state and territory parliamentary proceedings are shown in figure 1.4.

**Figure 1.4 Mentions of the Commission in Australian parliaments,
2011-12 to 2014-15**



Senate Committee appearances

The Commission is also invited to appear regularly before Senate Committees to assist the work of Federal Parliament and facilitate scrutiny of its work. It was requested to attend Senate Estimates hearings on three occasions in 2014-15. Appearances by the Chair,

Deputy Chair and senior staff before the Senate Standing Committee on Economics occurred on 31 October 2014, 25 February 2015 and 3 June 2015. Hansard of the appearances is available on the Parliament of Australia website.

Other indicators of impact

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

- use by the Commonwealth Treasury, COAG, the Reserve Bank of Australia, the ACCC, state governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW and others of a diverse range of Commission research outputs
- 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 C.1). The Commission also responded during the year to requests for briefings to visiting officials and delegations from Korea, China, Indonesia, the OECD and IMF (table C.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2014-15, for example, the Commission rated an average of 270 mentions a month in national print media.

Trends in inquiries and studies

Trends in public inquiry activity and participation over the past five years are shown in table 1.2. Information on individual projects is provided in appendix B.

Table 1.2 Public inquiry and other commissioned project activity, 2010-11 to 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15
Public inquiries					
Inquiry references received	3	5	5	5	3
Issues papers released	3	4	3	8	3
Public hearings (sitting days) ^a	45	16	11	35	14
Organisations/people visited	361	152	205	441	205
Submissions received	2397	566	258	1674	941
Draft reports ^b	4	5	4	6	3
Inquiry reports completed	3	5	4	7	3
Inquiries on hand (at 30 June)	4	9	5	3	3
Research studies					
References received	4	5	3	2	3
Submissions received	352	590	180	154	131
Draft reports ^b	3	4	2	3	2
Research reports completed	4	4	3	3	2
Studies on hand (at 30 June)	3	4	3	2	3
Total references					
Total references received	7	10	8	7	6
Total references completed	7	8	7	10	5
Total references on hand (at 30 June)	7	7	8	5	6

^a Excludes forums and roundtable discussions. ^b Includes all types of draft reports. ^c 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 inquiries and government-commissioned research studies completed in 2014-15 are shown in table 1.3.

Table 1.3 Cost of public inquiries and other government commissioned projects completed in 2014-15^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Access to Civil Justice	2 476
Childcare and Early Childhood Learning	2 316
Natural Disaster Funding	1 446
Costs of Doing Business: Dairy Manufacturing	565
Costs of Doing Business: Retail Trade	753

^a Includes estimated overheads.

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.

Associated reporting

Management and accountability information for 2014-15 is reported in appendix A. The audited financial statements for the Commission are contained in appendix E.

In response to suggestions by the Senate Standing Committee on Economics (2008), details of appearances at Senate Estimates during the year are provided above. In response to a further suggestion by the Senate Standing Committee on Economics (2013), detail of salary ranges by classification are included in Appendix A.

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 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 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 2015 are shown in figure A.1.

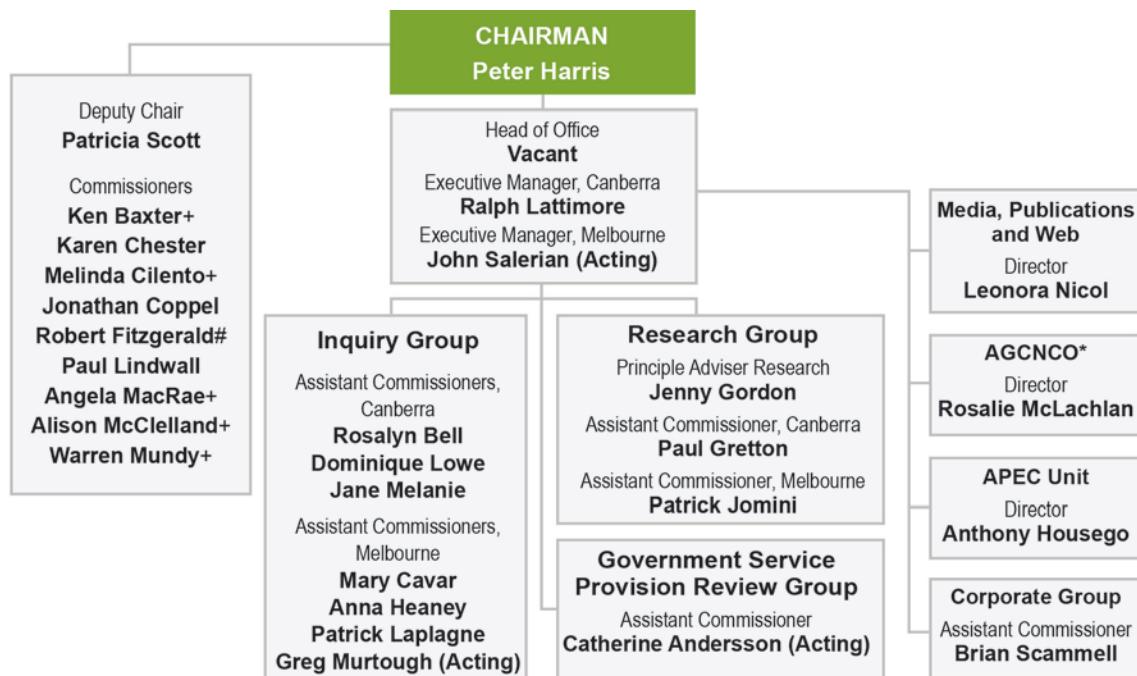
Commissioners

At 30 June 2015 there were eleven members of the Commission, including the Chairman. Five Commissioners held part-time appointments. One Commissioner, Mr Robert Fitzgerald AM, was on long-term leave of absence, pending the completion of his appointment as a Commissioner on the Royal Commission into Institutional Responses to Child Sexual Abuse.

Mr Mike Woods resigned as a Commissioner and Deputy Chair with effect from 22 December 2014. Ms Patricia Scott was re-appointed as a full-time Commissioner from 7 September 2014 for a three year period, and appointed Deputy Chair from 24 February 2015 until 6 September 2017.

The terms of appointment for Commissioners Philip Weickhardt and Wendy Craik expired on 11 and 31 December 2014 respectively.

Figure A.1 Commission structure and senior staff, 30 June 2015



* Australian Government Competitive Neutrality Complaints Office

Commissioner Fitzgerald on long-term leave of absence

+ Part-time Commissioners

Ms Melinda Cilento was appointed as a part-time Commissioner on 27 November 2014 for a period of five years. Ms Cilento has held non-executive director positions with Woodside Petroleum and Australian Unity and has been co-chair of Reconciliation Australia. Prior to taking up her non-executive roles, Ms Cilento was deputy CEO and chief economist of the Business Council of Australia. She has also held senior positions with Invesco Australia, the Federal Treasury, and the International Monetary Fund.

Mr Paul Lindwall was appointed as a full-time Commissioner on 1 January 2015 for a five year period. Mr Lindwall previously served as a senior official with the Australian Treasury, the Department of Finance and the Productivity Commission, with his work focussing on macroeconomic policy, financial markets and social policy. He has represented Australia at the OECD and the European Union and worked as a senior adviser to the Treasurer and Leader of the Opposition.

Mr Ken Baxter was appointed as a part-time Commissioner on 30 April 2015 for a period of five years. Mr Baxter has had 30 years direct involvement in the Commonwealth, Victorian and NSW governments and the private sector. He served as the Secretary of the Premier's Department in both NSW and Victoria, and has been a senior policy adviser to the PNG Prime Minister's Department. He has also had extensive experience in the reconstruction, funding, sale, re-organisation and operation of government owned

organisations as well as devising and implementing microeconomic reforms in Australia and internationally.

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

Associate Commissioners

No Associate Commissioner appointments were made during 2014-15.

Staff

The average staffing level during 2014-15 was 163 compared to 185 in 2013-14.

The Commission recruited 10 staff during the year, including six through its graduate recruitment program. Staff turnover was approximately 8 per cent.

Statistical information on staffing is provided in tables A1.2 to A1.5 of Attachment A1.

Outcome objective and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 3 — are summarised in table A.1. An agency resource statement for 2014-15 is included at Attachment A2. Performance information in respect of this outcome is provided in appendix B.

Table A.1 Financial and staffing resources summary

	<i>Budget * 2014-15</i>	<i>Actual 2014-15</i>	<i>Variation</i>
	\$'000	\$'000	\$'000
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			
Program 1.1	(a)	(b)	(a-b)
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	33 263	29 008	4 255
Revenues from independent sources (Section 74)	825	856	(31)
Expenses not requiring appropriation in the Budget year	1 090	1 104	(14)
Total for Outcome 1	35 178	30 968	4 210
	2013-14	2014-15	
Average Staffing Level (number)	185	163	

* Full-year budget, including any subsequent adjustment made to the 2014-15 Budget.

Governance

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

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

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

Key responsibilities

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

He is assisted in these tasks by the Head of Office and a Management Committee which addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee comprises the Chairman (as chair), the Deputy Chair, the Head of Office, the Executive Managers of the Melbourne and Canberra offices, 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. It also promotes the effectiveness and efficiency of the Commission's research program. It meets monthly and comprises the Chairman (as chair), the Deputy Chair, a Commissioner, the Head of Office, the Principal Adviser Research, the Executive Managers and one Assistant Commissioner.

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 and timeliness 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:

- responsible Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- monthly reports are provided on the status and future directions of the research program
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis
- a Commissioner designated with responsibility for competitive neutrality issues reports to the Commission on a quarterly basis
- the Head of Office provides monthly updates 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 external members. 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 Framework. No instances of fraud were reported during 2014-15. The Chair'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 with all employees having a copy of the Values and Code, and new employees receiving 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 periodically on these topics, most recently in February and March of 2015.

External and internal scrutiny

The Commission's processes, which provide for transparency and community participation in its work, are a key means of promoting external scrutiny. These processes are outlined in some detail in Chapter 1.

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.

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 2014-15 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2014-15 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix B. Details of the Commission's appearances at Senate Estimates hearings in 2014-15 are included in appendix B.

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 2014-15 the Commission updated its website following a review of structure, presentation and accessibility of content. In particular, search functionality has been enhanced considerably.

Information technology: Maintenance, review and upgrade of Commission ICT infrastructure has continued. In 2014-15, this included commencement of a phased rollout of electronic records management software; upgrade of the virtual hardware environment and storage area network; and ongoing work on disaster recovery preparedness.

Human Resources: During 2014-15, the Commission continued a system of performance appraisal for staff and senior executives, intended to enhance individual development and improve organisational performance. The program of internal seminars on a range of topical economic, social and environmental issues continued, as did a mentoring program for Executive Level staff.

Shared services: During 2014-15, the Commission provided ICT infrastructure and support, and payroll system and services, to another small co-located Commonwealth agency in Melbourne, the Tertiary Education Quality and Standards Agency, on a cost recovery basis.

Internal Audit: The Commission engages an accounting firm to undertake a program of internal audit reviews. Internal audit reviews conducted in 2014-15 focused on the information technology control environment and risk assessment.

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 assessment and plan
- 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 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. The Commission also reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Six new employees were engaged during 2014-15 through the 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

Remuneration for the Chairman and Commissioners is set directly by the Remuneration Tribunal in determinations that are publicly available on the Tribunal's website.

The Commission's Senior Executive Service (SES) employees are employed under individual determinations under the *Public Service Act 1999*. SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS Remuneration Report published by the Australian Public Service Commission.

Information on Commissioners and SES employees total remuneration is set out in Note 13 to the Financial Statements (appendix G).

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

Table A1.4 provides details of salary ranges at 30 June 2015.

The remuneration and terms and conditions of the Commission's non-SES employees are covered by an enterprise agreement. The agreement includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding environment for employees. Eight individual flexibility agreements are also in place, mainly addressing allowances and working hour arrangements.

The enterprise agreement had a nominal expiry date of 30 June 2014 and bargaining was undertaken during 2014-15 for a replacement agreement.

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
- identify learning and development needs
- assist in identifying and managing underperformance.

Ahead of each appraisal round — which occur at six-monthly intervals — training is conducted for new employees and new managers to ensure employee readiness for the appraisal round.

Under the Commission's enterprise agreement, all salary increases are conditional upon employees being rated fully effective in their performance appraisal. Performance bonuses are not a feature of remuneration for Commission employees.

Consultative arrangements

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

In addition, there is direct consultation between management and employees, including through regular team and branch meetings.

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 2014-15 was 1.2 per cent of the annual salary budget. This expenditure related to:

- 136 employees who undertook a total of 348 days of specific training and development
- 10 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. A program of internal seminars on a range of topical economic, social and environmental issues also contributes to staff development.

Workplace health & safety

A Workplace Health and Safety (WHS) Committee oversees the Commission's workplace health and safety program. Committee membership includes health and safety representatives and staff observers from both offices. The Committee met three times during 2014-15.

No formal WHS investigations were conducted during the year and there were no notifiable incidents. No notices under Part 10 of the *Work Health Safety Act 2011* were given to the Commission during 2014-15.

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

WHS activities during the year included:

- Commission-funded flu vaccinations (take up rate was around 58 per cent)
- ergonomic work station assessments (34 were completed, including 22 as part of the induction program).
- regular workplace hazard inspections conducted by members of the WHS Committee
- the opportunity for employees to complete working hours questionnaires
- workplace health-related promotions.

An indicator of the effectiveness of the Commission's WHS programs is Comcare's workers' compensation rate. The Commission's rate for 2013-14 was 0.2 per cent of payroll, compared to an overall scheme premium rate of 2.1 per cent. There was one claim for injury in 2014-15.

Employee Assistance Program

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. Ten employees or their families utilised the service in 2014-15.

Workplace diversity

The Commission is committed to building and maintaining a workplace culture that values and serves people with different backgrounds, experiences and perspectives. The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity.

As at 30 June 2015, one ongoing employee identified as Indigenous.

National Disability Strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010-11, departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by the National Disability Strategy 2010-2020, which sets out a ten year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports will be available in late 2014, and can be found at www.dss.gov.au.

Financial performance

The Productivity Commission is a listed entity under the *Public Governance, Performance and Accountability Act 2013*.

Revenue from government decreased in 2014-15 to \$33.3 million (\$36.4 million in 2013-14). Revenue from other sources remained stable at \$0.9 million (\$0.9 million in 2013-14).

Operating expenses decreased in 2014-15 to \$31.0 million (\$37.3 million in 2013-14). The major expenses in 2014-15 were \$23.9 million in respect of employee expenses,

\$6.0 million relating to supplier payments, and \$1.1 million in asset depreciation, amortisation and related expenses.

Under the Australian Government's net cash appropriation arrangements, individual agencies are not funded for depreciation or amortisation expenses through appropriation revenue. The operating result for 2014-15 was a \$4.3 million surplus, after excluding those depreciation and amortisation expenses.

Table A.1 provides a summary of financial and staffing resources. The agency resource statement is provided at Attachment A2. The audited financial statements for 2014-15 are shown in appendix E, and include a note on major budget variances.

Purchasing

The Commission applies the Commonwealth Procurement Rules. The Commission's purchases of goods and services during 2014-15 were consistent with the 'value-for-money' principle underpinning those rules.

The Commission did not enter into any contracts or standing offers that were exempt from being published on AusTender. Contracts of \$100 000 or more (inclusive of GST) let during 2014-15 included a provision for the ANAO to have access to the contractor's premises if required.

The Commission supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website (www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts).

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 2014-15, eleven new consultancy contracts were entered into involving total actual expenditure of \$41 884. There were no ongoing consultancy contracts active during the 2014-15 year.

Table A.2 provides information on expenditure on consultants in the five years to 2014-15.

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.2 Expenditure on consultancies, 2010-11 to 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	36	153	40	29	42

Legal services

Total expenditure on legal services in 2014-15 was \$714 (GST exclusive). 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. Recent Commission reports on: *Barriers to effective climate change adaptation*; *Mineral and energy resource exploration*; and *Natural Disaster Funding* are examples of work undertaken requiring integration of complex economic, social and environmental considerations.

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

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

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

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

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

During 2014-15, the Commission recorded energy usage of 8 669 MJ/person/annum (2013-14: 8 249 MJ/person/annum) against the Government's energy target of 7 500 MJ/person/annum for tenant light and power usage in office buildings.

The Commission did not enter into any new lease agreements for office accommodation during 2014-15. The building in which the Commission has its Melbourne office has a 4.5 star NABERS Energy rating. In Canberra, the Commission's lease contains a Green Lease Schedule targeting a 4.5 star NABERS Energy tenancy rating.

The Commission provides a small number of vehicles under the Executive Vehicle Scheme. The average Green Vehicle Guide rating for these vehicles is 12.5.

Publications and submissions

Appendix D lists all the Commission's publications in 2014-15.

Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements.

Advertising and market research

The Commission does not undertake ‘advertising campaigns’. But it does publicise 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 News*, press releases, a Twitter and email alert service, notification on the Commission’s website and distribution of Commission circulars.

A total of \$30 408 was paid for advertising (including recruitment advertising) in 2014-15 to Mitchells Adcorp Alliance.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with Schedule 2 Part 4 of the *Work Health and Safety Act 2011*, section 46 of the *Public Governance, Performance and Accountability Act 2013* and Part II 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 A4.

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

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

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, Publications and Web
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601
Telephone: (02) 6240 3239
Email: maps@pc.gov.au

Attachment A1

Commissioner and employee statistics

Table A1.1 Chair and Commissioners, 30 June 2015

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr P Harris AO (Chairman) (M)	11 Mar 2013	10 Mar 2018
Ms P Scott (Deputy Chair) (C)	7 Sep 2014	6 Sep 2017
Mr K Baxter (S) (p/t)	30 Apr 2015	29 Apr 2020
Ms K Chester (S)	12 Dec 2013	11 Dec 2018
Ms M Cilento (M) (p/t)	27 Nov 2014	26 Nov 2019
Mr J Coppel (M)	28 Jul 2011	27 Jul 2016
Mr R Fitzgerald AM (C)	27 Jan 2014	26 Jan 2019
Mr P Lindwall (C)	1 Jan 2015	31 Dec 2019
Ms A McClelland (M) (p/t)	8 Dec 2010	7 Dec 2015
Ms A MacRae (M) (p/t)	8 Dec 2010	7 Dec 2015
Dr W Mundy (C) (p/t)	8 Dec 2010	7 Dec 2015

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

There were no part-time Associate Commissioner appointments made or completed in 2014-15.

Table A1.2 Employees by location and gender, 30 June 2015

Level	Melbourne			Canberra			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
SES Band 3	0	0	0	0	0	0	0	0	0
SES Band 2	0	1	1	1	1	2	1	2	3
SES Band 1	4	5	9	3	1	4	7	6	13
Staff Level 4	6	12	18	6	10	16	12	22	34
Staff Level 3	16	13	29	5	10	15	21	23	44
Staff Level 2	15	15	30	7	6	13	22	21	43
Staff Level 1	7	5	12	6	3	9	13	8	21
Total^b	48	51	99	28	31	59	76	82	158
Corresponding totals at 30 June 2014 ^a	53	48	101	30	34	64	83	82	165

^a Totals exclude 4 inoperative employees at 30 June 2014. ^b Totals exclude 9 inoperative employees at 30 June 2015; 2015 totals include one acting SES Band 2, three SES Band 1's, and two Staff Level 2's.

Table A1.3 Employees by employment status and gender, 30 June 2015

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	0	0	0	0	0	0	0	0	0
SES Band 2	1	0	1	2	0	2	3	0	3
SES Band 1	7	0	7	6	0	6	13	0	13
Staff Level 4	9	3	12	20	2	22	29	5	34
Staff Level 3	14	7	21	22	1	23	36	8	44
Staff Level 2	15	7	22	20	1	21	35	8	43
Staff Level 1	5	8	13	7	1	8	12	9	21
Total^b	51	25	76	77	5	82	128	30	158
Corresponding totals at 30 June 2014 ^a	62	21	83	80	2	82	142	23	165

^a Totals exclude 4 inoperative employees at 30 June 2014. ^b Totals exclude 9 inoperative employees at 30 June 2015; 2015 totals include one acting SES Band 2, three SES Band 1's, and two Staff Level 2's.

Table A1.4 Salary ranges, 30 June 2015^a

<i>Level</i>	<i>Minimum (\$)</i>	<i>Maximum(\$)</i> ^b
SES Band 2	232 261	255 886
SES Band 1	184 251	223 942
Staff Level 4 ^c	113 936	142 929
Staff Level 3	93 968	118 999
Staff Level 2	68 089	90 515
Staff Level 1	47 094	74 185

a The major non-salary benefit is superannuation, which is not included in the table. During 2014-15 the Commission employed one SES Band 3 employee not included in this table.

b The maximum shown above in respect of SES employees includes a vehicle allowance. The above salary ranges for SL1 to SL4 are those available under the Commission's current Enterprise Agreement. Due to 'grandfathering' of provisions from a previous agreement, some employees continue to receive a higher salary – the maximum salaries actually paid at each level are: SL1 \$74 185; SL2 \$98 807; SL3 \$125 413; SL4 \$167 085.

c Under the Commission's Enterprise Agreement, progression to a maximum of \$150 648 is available at the SL4 level in limited circumstances (not through incremental advancement).

Table A1.5 Employees by level and reason for separation, 2014-15

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>RPA</i>	<i>Other</i>	<i>Total</i>
SES	1	1	2	0	0	0	4
Staff Level 4	0	0	0	0	1	0	1
Staff Level 3	0	0	1	0	0	0	1
Staff Level 2	0	1	3	0	2	0	6
Staff Level 1	0	0	2	0	1	0	3
	1	2	8	0	4	0	15
Corresponding totals at 30 June 2014	0	0	5	0	29	0	34

a Redundancy Package.

Attachment A2

Agency Resource Statement — 2014-15

	<i>Actual Available Appropriation 2014-15</i>	<i>Payments Made 2014-15</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
Ordinary Annual Services			
Departmental appropriation¹			
Prior year Departmental appropriation	23 900		
Departmental appropriation 2014-15	34 118	30 755	
S.74 Relevant agency receipts²	1 410	1 410	
Total ordinary annual services	59 428	32 165	27 263
Total Resourcing and Payments	59 428	32 165	27 263

¹ Appropriation Bill (No.1) 2014-15 and Appropriation Bill (No.3) 2014-15.

² Receipts received under section 74 of the *Public Governance, Performance and Accountability Act 2013*.

Attachment A3



Locked Bag 2
Collins Street East
Melbourne VIC 8003
Telephone 03 9653 2100
Facsimile 03 9653 2199
www.pc.gov.au

27 August 2015

From the Chairman's Office

Annual Report 2014-15 – Fraud Control Certification

In accordance with the *Commonwealth Fraud Control Framework 2014*, I hereby certify that I am satisfied that the Productivity Commission has:

- prepared fraud risk assessments and fraud control plans;
- in place appropriate fraud prevention, detection, investigation, reporting mechanisms that meet the specific needs of the Commission; and
- taken all reasonable measures to appropriately deal with fraud relating to the Commission.


Peter Harris AO

Attachment A4

Compliance index

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

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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:	
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B 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 2014-15 and previous years. It also reports on commissioned projects received since 30 June 2015.

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 B.1 summarises activity since the Commission's 2013-14 annual report and indicates where relevant information can be found.

Table B.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 in reporting period</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
Inquiries					
13-11-13	Public Infrastructure	AR 13-14	Report completed 27 May 2014	AR 13-14	page 55
21-06-13	Access to Civil Justice	AR 12-13	Report completed 5 September 2014	page 47	na
22-11-13	Childcare and Early Childhood Learning	AR 13-14	Report completed 31 October 2014	page 49	na
29-11-13	Tasmanian Shipping and Freight	AR 13-14	Report completed 24 June 2014	AR 13-14	page 54
28-04-14	Natural Disaster Funding	AR 13-14	Report completed 17 December 2014	page 50	page 52
20-11-14	Business Set-up, Transfer and Closure	Page 43	In progress	na	na
19-12-14	Workplace Relations Framework	Page 44	In progress	na	na
20-3-15	Migrant Intake into Australia	Page 45	In progress	na	na
18-8-15	Intellectual Property Arrangements	Page 47	In progress	na	na
Other commissioned projects					
7-04-14	Costs of Doing Business: Dairy Manufacturing	AR 13-14	Report completed 26 September 2014	page 53	na
7-04-14	Costs of Doing Business: Retail Trade	AR 13-14	Report completed 26 September 2014	page 52	na
11-12-14	Mutual Recognition Schemes	Page 43	In progress	na	na
4-3-15	Services Exports	Page 45	In progress	na	na
25-3-15	Public Safety Mobile Broadband	Page 46	In progress	na	na

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2014-15, 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 the relevant reports.

Business Set-up, Transfer and Closure

On 20 November 2014, the Commission was asked by the Australian Government to conduct an inquiry into business set-ups, transfers and closures.

The inquiry was to specifically investigate, analyse and propose recommendations on the nature and the scale and extent of barriers to entry and exit that currently exist for businesses and their impact on economic performance. The Commission was also asked to identify appropriate options for reducing these entry and exit barriers.

As part of this request, the Commission was asked to conduct a broad ranging investigation into barriers to business entries and exits and how or where it might be efficiency-enhancing to reduce such barriers. The Commission was to investigate, analyse and propose recommendations on the following:

- The nature and scale/extent of barriers to entry and exit that currently exist for firms and their impact on economic performance. Consideration could also be given to the variance in entry and exit rates, for example, between industries, locations, or firm size.
- Identify appropriate options for reducing these entry and exit barriers, including, but not limited to, advice on the potential impacts of:
 - the regulation of product and service markets
 - transfers and subsidies to businesses, including import barriers
 - regulations affecting the ease of starting, operationalising or closing a business
 - time spent on and cost of complying or dealing with government regulation, licensing and bureaucracy
 - the personal/corporate insolvency regimes on business exits.

A final report was provided on 30 September 2015.

Mutual Recognition Schemes

The Australian Government asked the Commission to conduct a nine month study into mutual recognition arrangements on 11 December 2014.

In undertaking the study, the Commission was asked to include consideration of the coverage, efficiency and effectiveness of the Mutual Recognition Agreement and Trans-Tasman Mutual Recognition Agreement; to recommend ways to further improve inter-jurisdictional movement of goods and skilled workers, and reduce red tape; and to consider how to address any use-of-goods requirements that are restricting the sale of goods under the MRA and TTMRA. The Commission was also asked to examine the extent to which Commonwealth regulatory agencies are aware of their mutual recognition obligations and have implemented associated processes. The research report was released on 25 September 2015.

Workplace Relations Framework

On 19 December 2014 the Australian Government asked the Commission to undertake a public inquiry to examine the performance of the workplace relations framework and identify improvements to it.

The terms of reference ask the Commission to consider the impact of the framework on a range of matters including:

- unemployment, underemployment and job creation
- fair and equitable pay and conditions for employees, including the maintenance of a relevant safety net
- small businesses
- productivity, competitiveness and business investment
- the ability of business and the labour market to respond appropriately to changing economic conditions
- patterns of engagement in the labour market
- the ability for employers to flexibly manage and engage with their employees
- barriers to bargaining
- red tape and the compliance burden for employers
- industrial conflict and days lost due to industrial action
- the scope for independent contracting.

While the terms of reference cover an assessment of the performance of the framework's main regulatory instrument, the *Fair Work Act 2009* (Cth), the Government has requested that the Productivity Commission go beyond evaluating the current system to consider the type of system that might best suit the Australian community over the longer term.

The Productivity Commission has also been asked to recommend improvements to maximise outcomes for employers, employees and the economy and to identify and quantify the costs and benefits of its recommendations.

A final report is to be provided to Government by November 2015.

Services Exports

The Commission was asked by the Australian Government on 4 March 2015 to undertake a nine month research study into barriers to growth in Australian services exports. In undertaking the study, the Commission was asked in particular to:

- consider recent trends in services exports by Australian suppliers
- examine the domestic barriers to growth in Australian services exports, including any investment barriers, and consider appropriate policy responses
- examine barriers to growth in services exports in key trading partners with which Australia does not have a free trade agreement and assess the economic benefits of reducing or removing barriers to services exports in these markets
- examine the experience of other economies in developing policy approaches in this area.

The Commission has been asked to focus on the education, financial services, health services, information technology, professional services and tourism sectors.

Migrant Intake into Australia

On 20 March 2015 the Commission was asked to conduct a twelve month inquiry into the greater use of charges (relative to quotas and qualitative criteria) to determine the intake of temporary and permanent immigrants into Australia.

The Commission is to report by March 2016 on the benefits and costs of temporary and permanent immigration with regard to:

- the budgets and balance sheets of Australian governments, including from:
 - entry charges
 - government services used now and in the future
 - taxes paid now and in the future
 - the dilution of existing, government-held assets and liabilities across a larger population
- the income, wealth and living standards of Australian citizens, including with respect to:
 - impacts on the salaries and employment of Australian citizens, knowledge and skill transfer, productivity, foreign investment, and linkages to global value chains
 - cultural, social and demographic impacts
 - agglomeration, environmental, amenity and congestion effects.

Specifically, the terms of reference request the Commission to conduct an examination of the scope to use alternative methods for determining immigrant intakes — including through charges — and the effects these would have. The terms of reference direct the Commission to examine at least one specific scenario in which entry charges for immigrants are the primary basis for entering Australia, such that:

- there would be no requirements relating to skills and family connections
- qualitative requirements relating to health, character and security would remain
- all entrants would have the right to work
- entrants would have limited access to social security or subsidised education, housing or healthcare
- the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

The Commission is also requested to consider the interaction between temporary and permanent immigration, noting that temporary migration is an established pathway to permanent immigration.

In undertaking the inquiry, the Commission was asked to use evidence from Australia and overseas to report on the benefits and costs of permanent migration; the scope to use alternative methods for determining the intake of permanent migrants and the effects these would have; benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration; and mechanisms for achieving an optimal interaction between temporary and permanent migration.

Public Safety Mobile Broadband

A study into public safety mobile broadband commenced on 25 March 2015, with the Commission asked to provide a final report within nine months of receipt of the reference.

The study is to consider the best way to deliver a mobile broadband capability to meet the long term needs of public safety agencies (PSAs) — the police, fire, ambulance and other emergency services. Specifically, the Commission has been asked to undertake a ‘first principles’ analysis of the most efficient, effective and economical way of delivering a public safety mobile broadband (PSMB) capability to PSAs by 2020, giving consideration to:

- the relative costs, benefits and risks of different options
- particular characteristics of the capability provided to PSAs (such as operation in metropolitan and regional Australia; integrity and security; resilience; and ensuring accessibility, priority and sufficient capacity during peak demand periods) that are important given the mission critical circumstances they operate in

-
- other characteristics (such as interoperability across agencies and jurisdictions, compatibility with a variety of end-user devices, sustainability and cost-effectiveness)
 - relevant domestic and international reports and experiences.

Intellectual Property Arrangements

On 18 August 2015 the Australian Government asked the Productivity Commission to undertake a 12 month public inquiry into Australia's intellectual property system.

In undertaking the inquiry, the Commission has been asked to consider whether current arrangements provide an appropriate balance between access to ideas and products, and encouraging innovation, investment and the production of creative works.

In recommending changes to the current system to improve the overall wellbeing of Australian society the Commission is to have regard to:

- incentives for innovation and investment, including freedom to build on existing innovation
- Australia's international trade obligations
- the relative contribution of intellectual property to the Australian economy
- the economy-wide and distributional consequences of recommendations, including their impacts on trade and competition
- ensuring the intellectual property system will be efficient and robust through time, in light of economic changes
- how proposed changes fit with, or may require changes to, other existing regulation or forms of assistance
- the relevant findings and recommendations of recently completed reviews.

Reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released in the period to 8 October 2015. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Access to Civil Justice

Inquiry Report No. 72, signed 5 September 2014, report released 3 December 2014.

The key points from the report were as follows:

-
- There are widespread concerns that Australia's civil justice system is too slow, too expensive and too adversarial. But the notion of a civil justice 'system' is misleading. Parties can resolve their disputes in many ways, including through courts, tribunals and ombudsmen. Each differs in its formality, cost and timeliness. Such a complex system resists both a single diagnosis and remedy.
 - While much focus is on the courts, the central pillar of the justice system, much is done in their shadow, with parties resolving their disputes privately. Community legal education, legal information (including self-help kits) and minor advice help ensure that parties are better equipped to do so. Better coordination and greater quality control in the development and delivery of these services would improve their value and reach.
 - Where disputes become intractable, parties often have recourse to a range of low cost and informal dispute resolution mechanisms. But many people are unnecessarily deterred by fears about costs and/or have difficulty in identifying whether and where to seek assistance. A well-recognised entry point or gateway for legal assistance and referral would make it easier to navigate the legal system.
 - Most parties require professional legal assistance in more complex matters. But the interests of lawyers and their clients do not always align. Reforms to professional regulation are required to ensure clients are better informed and have more options for selecting the tasks they want assistance with, and how they will be billed. Clients should also have independent and effective options for redress when professional standards fall short.
 - Some disputes, by their nature, are more appropriately handled through the courts. While these disputes may be small in number, many individuals are poorly placed to meet the associated costs. Court processes in all jurisdictions have undergone reforms to reduce the cost and length of litigation. But progress has been uneven and more needs to be done to avoid unnecessary expense.
 - The ways in which parties interact with each other and with courts and tribunals also needs to change. The adversarial behaviour of parties and their lawyers can hinder the resolution of disputes or even exacerbate them. Changes to rules governing the conduct of parties and lawyers, and the way in which costs are awarded, would improve incentives to cooperate.
 - Court fees vary widely across courts and jurisdictions and are not set with reference to a common framework. A more systematic approach is required for determining fees. Parties can derive significant private benefits from using the court system; these benefits need to be reflected in court charges, which in many cases should be increased.
 - Disadvantaged Australians are more susceptible to, and less equipped to deal with, legal disputes. Governments have a role in assisting these individuals. Numerous studies show that efficient government funded legal assistance services generate net benefits to the community.

-
- The nature and predictability of funding arrangements constrain the capacity of legal assistance providers to direct assistance to the areas of greatest benefit. This needs to change and, in some cases, funding should be redirected.
 - While there is some scope to improve the practices of legal assistance providers, this alone will not address the gap in services. More resources are required to better meet the legal needs of disadvantaged Australians.

Childcare and Early Childhood Learning

Inquiry Report No. 73, signed 31 October 2014, report released 20 February 2015.

The key points from the report were as follows:

- Formal and informal Early Childhood Education and Care (ECEC) services play a vital role in the development of Australian children and their preparation for school, and in enabling parents to work. Many families use a mix of formal ECEC and informal, non-parental care.
- The number of formal ECEC services has expanded substantially over the past decade. Over the same period, Australian Government funding has almost tripled to around \$7 billion per year, and now covers two thirds of total ECEC costs. Despite this, many parents report difficulties in finding ECEC at a location, price, quality and hours that they want.
- Current ECEC arrangements are complex and costly to administer and difficult for parents and providers to navigate. There are over 20 Australian Government assistance programs, some poorly targeted. Assessing service quality is cumbersome and time consuming.
- The benefits from participation in preschool for children's development and transition to school are largely undisputed. There also appear to be benefits from early identification of, and intervention for, children with development vulnerabilities.
- The National Quality Framework must be retained, modified and extended to all Government funded ECEC services. To better meet the needs and budgets of families, the range of services approved for assistance should include approved nannies and the cap on occasional care places should be removed. All primary schools should take responsibility for outside school hours care for their students, where demand exists for a viable service.
- The Commission's recommended reforms will achieve, at minimal additional cost, an ECEC system that is simpler, more accessible and flexible, with greater early learning opportunities for children with additional needs. The reforms would also alleviate future fiscal pressures, establish a system that is easier to adapt to future changes in ECEC, and tax and welfare arrangements. Assistance should focus on three priority areas:

-
- mainstream support through a single child-based subsidy that is: means- and activity- tested, paid directly to the family's choice of approved services, for up to 100 hours per fortnight, and based on a benchmark price for quality ECEC. In regional, rural and remote areas with fluctuating child populations, viability assistance should be provided on a limited time basis.
 - support the inclusion of children with additional needs in mainstream services, delivery of services for children in highly disadvantaged communities and the integration of ECEC with schools and other child and family services.
 - approved preschool programs funded on a per child basis, for all children, regardless of whether they are dedicated preschools or part of a long day care centre.
 - Additional workforce participation will occur, but it will be small. ECEC issues are just some of a broad range of work, family and financial factors which influence parent work decisions. The interaction of tax and welfare policies provide powerful disincentives for many second income earners to work more than part time. Shifting to the recommended approach is nevertheless estimated to increase the number of mothers working (primarily of low and middle income families) by 1.2 per cent (an additional 16 400 mothers).
 - Overall, more assistance will go to low and middle income families and their use of childcare is expected to rise. However, high income families who increase their work hours may also be better off. Enabling the lowest income families (those on Parenting Payments) some access to subsidised childcare without meeting an activity test may boost ECEC participation and improve child development outcomes for this group, but this comes at the cost of potentially higher workforce participation.

Natural Disaster Funding

Inquiry Report No. 74, signed 17 December 2014, report released 1 May 2015.

The key points from the report were:

- Australia is exposed to natural disasters on a recurring basis. Effective planning and mitigation of risks is an essential task for governments, businesses and households.
- Current government natural disaster funding arrangements are not efficient, equitable or sustainable. They are prone to cost shifting, ad hoc responses and short term political opportunism. Groundhog Day anecdotes abound.
- Governments overinvest in post disaster reconstruction and underinvest in mitigation that would limit the impact of natural disasters in the first place. As such, natural disaster costs have become a growing, unfunded liability for governments.
- The funding arrangements matter because they impact the incentives to manage risks, including by using potent but politically challenging levers like land use planning. The reform imperative is greatest for states most exposed to natural disaster risk, like Queensland.

-
- The recommended reforms comprise a coherent policy package across recovery and mitigation funding, budget treatment of recovery costs, and accountability requirements for all governments. ‘Cherry picking’ component parts would see the much needed balance between mitigation and recovery, as well as greater state autonomy, remain elusive.
 - Australian Government post disaster support to state and territory governments (states) should be reduced, and support for mitigation increased. Greater budget transparency and some provisioning is also needed.
 - States need to shoulder a greater share of natural disaster recovery costs to sharpen incentives to manage, mitigate and insure against these risks. The Australian Government should provide a base level of support to states commensurate with relative fiscal capacity and the original ‘safety net’ objective of disaster recovery funding, with the option for states to purchase ‘top up’ fiscal support.
 - Australian Government mitigation funding to states should increase to \$200 million a year and be matched by the states.
 - These reforms would give state and local governments autonomy in how they pursue disaster recovery and mitigation. The reforms should be supported by performance and process based accountability mechanisms that embed good risk management.
 - Governments have a role in providing emergency relief payments to individuals seriously affected by natural disasters, to defray immediate economic and social hardship. Such relief should be provided in a consistent, equitable and efficient way.
 - Governments can do better in terms of policies that enable people to understand natural disaster risks and also to give them the incentive to manage the risks effectively.
 - Information on hazards and risk exposure has improved significantly in recent years, but there are opportunities to improve information consistency, sharing and communication.
 - Regulations affecting the built environment have a significant influence on the exposure and vulnerability of communities to natural hazards. While building regulations have generally been effective, there is a need to transparently incorporate natural disaster risk management into land use planning.
 - Insurance is an important risk management option. Insurance markets in Australia for natural disaster risk are generally working well, and pricing is increasingly risk reflective. Insurers can and should do more to inform households on their insurance policies, the natural hazards they face and the indicative costs of rebuilding after a natural disaster.

Government response

On 1 May 2015 the Australian Government released an interim response to the Commission's report (Keenan 2015). The response stated:

Importantly, the Productivity Commission report also raises a number of issues – including the need for better land use planning, and improved risk data and information sharing – which should be carefully considered by state and local governments.

The Government indicated that it would therefore provide a full response to the Commission's final report following these consultations.

Costs of Doing Business: Retail Trade and Dairy Manufacturing

Reports completed 26 September 2014.

For the report on the retail sector, the key points from the reports were as follows:

- The Australian retail sector comprises more than 133 000 businesses contributing around 5 per cent of GDP and 9 per cent of total hours worked.
- The industry is diverse in terms of firm size, product range, business models and formats, and cost structures. Around 95 per cent of all retail businesses are small businesses. The retail sector is operating in an increasingly dynamic and globalised environment, competing on different platforms and across borders. This has delivered better outcomes for consumers and, combined with shifts in consumer spending, has created a challenging trading environment for many retailers.
- The cost of doing retail business is largely driven by geography, markets and commercial decisions. As such, many of the cost pressures facing retailers are market driven and require commercial responses.
 - That said, there are some costs that are heavily influenced by government regulations such as those affecting trading hours, the supply of retail space, workplace relations, transportation and delivery of goods, utility charges and liquor licensing. These cost pressures are accentuated in an environment where retailing is more competitive.
- As was the case in 2011 when the Commission undertook an extensive inquiry into the economic structure and performance of the Australian retail industry, retailers continue to operate under several regulatory regimes that unnecessarily inflate their costs and restrict their ability to innovate. With the exception of Victoria, reforms since then have been piecemeal, and incomplete across most jurisdictions. Major restrictions that still need to be addressed are:
 - trading hours regulations that restrict the industry's ability to adapt and compete with online competitors, and provide the convenience that consumers expect

-
- planning and zoning regulations that are complex, excessively prescriptive, and often anticompetitive.
 - Several input prices have increased to add further cost pressures, with prices for major inputs such as labour and occupancy rising faster than final retail prices.
 - Notwithstanding the increase in these input costs, cost structures and retail profits have remained relatively stable at a broad industry level. To some extent, overall profitability has been protected by the lower cost of some goods, reflecting both sourcing strategies by retailers and the appreciation of the Australian dollar. The rise in input costs has also been partly offset by productivity gains in the retail sector.
 - While some of the larger retailers monitor costs domestically and compare those to their competitors here and overseas, this information is very tightly held given its commercial sensitivity. There are limited publicly available data to support an international comparison of costs across the wide spectrum of businesses operating in what is a very diverse sector.
 - At an industry level, labour costs and rent as a share of revenue appear higher in Australia relative to the United Kingdom and the United States. For some retail categories, such as supermarkets, there are no discernible differences in cost structures between Australian retailers and those operating in broadly comparable markets overseas. For other retail categories, such as clothing and footwear, differences are more apparent.
 - While Australian consumers are enthusiastic online shoppers, Australian retailers do not appear to be using online retailing to its full potential.

For the report on the dairy sector, the key points from the reports were as follows:

- Australian dairy product manufacturers face some cost pressures (such as energy and labour) relative to their competitors, but also some advantages, including highly competitive raw milk costs (the largest single input cost).
- Some cost pressures may warrant government corrective action, but most costs are largely driven by market factors and the commercial decisions of businesses. Manufacturers and farmers will need to continue innovating and improving the efficiency of their operations in the face of a potential expansion in global supply (for example, once EU milk production quotas are removed in 2015).
- Suggestions that Australian dairy manufacturing should emulate the so called New Zealand model, with a ‘national champion’, are often based on an overly simplistic comparison of the export performance of the two countries’ dairy industries; tend to gloss over the regulatory arrangements that underpin the New Zealand dairy industry (for example, domestic price regulation); and overemphasise the role of plant scale.
- On farm investment is crucial to increasing Australia’s raw milk supply (and dairy product manufacturing output). Manufacturers may need to share more of the investment risks in order to increase raw milk production.

-
- Farmgate price incentives to encourage ‘new’ milk, or reduce the seasonal variability of milk supply, are already in play where it is commercially desirable.
 - In 2012 13, Australian dairy product manufacturing generated a total industry value added of more than \$2.4 billion (roughly 0.15 per cent of GDP) and employed over 17 500 people.
 - About 40 per cent of Australia’s dairy output (in milk equivalent terms) is exported (predominantly as cheese and milk powder), with China and Japan the largest markets.
 - This level of integration of Australian dairy manufacturers into world markets means that domestic dairy product prices (and farmgate milk prices) are strongly influenced by international markets and prices.
 - Hourly labour costs in the Australian food, beverage and tobacco manufacturing sector in 2012 exceeded those in New Zealand, the United Kingdom and the United States of America (in common currency terms). In addition, Australia’s measured productivity performance in the food, beverage and tobacco manufacturing sector between 2000 and 2011 has been relatively poor.
 - Wholesale prices of electricity and natural gas in Australia have risen sharply since 2006. For manufacturers of energy intensive dairy products such as milk powder, this would have had a relatively substantial bearing on cost competitiveness.
 - Energy cost increases in recent years are mainly due to spiralling network costs — partly driven by flaws in the regulatory frameworks governing electricity markets — and to a lesser extent, policies designed to reduce carbon emissions and promote renewable energy. While some reforms have occurred, further alterations to incentives in electricity network investment programs would be of value to the dairy and other industries.
 - Distortionary forms of drought assistance, biofuel subsidies and genetically modified crop regulations in some states and territories reduce adjustment and innovation, affecting the efficiency of the dairy industry and the rest of the economy.

Government responses to reports from previous years

Tasmanian Shipping and Freight

Inquiry Report No. 69, signed 7 March 2014, report released 24 June 2014.

On 13 March 2015 the Australian Government released its response to the report (Australian Government 2015). The report considered the operation of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme. The response stated that:

Noting the intention of the Australian Government to retain the schemes, the Productivity Commission has put forward recommendations to improve their operation.

The Government supported 9 of the report's 20 recommendations, and provided partial support for a further 4 recommendations.

Public Infrastructure

Inquiry Report No. 71, signed 27 May 2013, report released 14 July 2014.

The Australian Government released a response to the Commission's report on 1 December 2014 (Australian Government 2014). The Government agreed to recommendations covering improved institutional and governance arrangements; project selection and design; procurement models; and reforms to labour and construction markets. The Assistant Minister for Infrastructure consulted with all States and Territories and industry as part of developing the Government response, and indicated that some States and Territories may release a separate response.

C Research and related activities

The Commission's research program encompasses a range of activities. This appendix provides brief summaries of Commission Research Papers, Staff Working Papers and Staff Research Notes released in the year. It also lists the presentations given by the Chair, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2014-15, as well as briefings to international visitors.

Commission Research Papers

Australia's International Tourism Industry

This paper was released on 26 February 2015 and examined the trends and drivers of growth in Australian international tourism with a view to understanding their implications for government policy.

The Commission also assessed the role for government in the tourism industry, and considered whether there are significant barriers to future growth in international tourism in Australia that are amenable to policy reform.

The key points from the paper were:

- Australia's international tourism industry has grown strongly over the past two decades — the number of international visitors to Australia has more than doubled, rising from 2.5 million in 1992 to almost 6.7 million in 2014. The composition of the industry has also changed.
 - Markets in Asia, particularly China and India, have grown in importance as a source of international visitors to Australia, with China now the second largest source of visitors after New Zealand. Alongside this, there has been a slow down (and, in some cases, a decline) in growth in the number of visitors to Australia from some historically important source countries, such as the United States, the United Kingdom and Japan.
 - Growth in the industry overall means regional visitation has increased, but the change in the composition of source countries has contributed to a decline in the proportion of expenditure and the proportion of international visitors travelling to regional areas of Australia (of about 5 percentage points between 2006 and 2014).

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- There has been an overall decline in international tourism activity in some regions — in Tropical North Queensland there was a 20 per cent decline in the number of international visitors travelling to the region, particularly from Japan, and a 40 per cent decline in real expenditure between 2006 and 2014.
 - The way businesses in the international tourism industry innovate and adapt to changing trends will largely determine how successful Australia is in continuing to attract international visitors. Governments also have a role, and a number of reforms would benefit the tourism industry and the economy more broadly.
 - Many national parks are hampered by tired infrastructure and persistent funding shortfalls. Greater user charging and more private investment would provide an additional source of funding and facilitate innovation in the provision of tourism-related infrastructure.
 - Poor approval processes for tourism-related infrastructure investments are not only costly to developers, but to businesses and communities. There is a need for governments to continually review and reform these processes so that they are flexible and risk based, and keep pace with innovations in the tourism industry.
 - There can be a case for governments to be involved in attracting international visitors to Australia through the provision of international destination marketing and support for major events. However, assessments often overstate the net economic benefits of these activities — and consequently the basis for government support — highlighting a need for rigorous and transparent economic analysis to determine whether government expenditure is warranted.
 - Although Australia's international aviation policy settings have served Australia well, it is expected that further liberalising access to Australia's major gateway cities — Brisbane, Melbourne, Perth and Sydney — would provide net benefits to the international tourism industry and the Australian community.
 - It is difficult to see how restricting access to secondary airports serving the major gateways, such as Avalon and the proposed airport at Badgerys Creek, creates benefits for the Australian community. If any restrictions are to remain, the case for all restrictions, except those at Sydney Kingsford Smith Airport, is quite weak, and open access could be extended accordingly.

Examining Barriers to More Efficient Gas Markets

This paper was released on 31 March 2015 and it examined issues relating to different stages of the gas supply chain in the eastern Australian gas market, against the backdrop of integration with the Asia-Pacific market.

The stages of the supply chain considered include exploration, production, processing and transmission. The Commission's analysis also considered the role of government in the market, and examined whether there are barriers to efficiency that would be amenable to policy reform.

The key points from the paper were:

- The integration of the eastern Australian gas market with the Asia-Pacific market represents an opportunity for the Australian community to earn a higher return from its substantial non-renewable resources. This will result in a net benefit to the community.
- The opening of the export market is creating significant disruption for market participants and will lead to material costs for some gas users, including through higher prices. There are concerns about short-term gas shortages and some gas users have indicated that they are unable to secure supply contracts.
 - Policies that seek to counteract the pressures from structural adjustment arising from the opening of the export market, such as domestic gas reservation, could distort important signals for adjustment and are unlikely to be efficient or effective in the long run.
 - Governments should be mindful that policies that interfere with market signals could undermine investment incentives, including incentives to bring on new sources of gas supply.
- The mechanisms for allocating gas exploration and production rights should seek the optimal level and timing of such activities by companies that can perform them most efficiently.
 - Policies designed to accelerate production, such as use it or lose it mechanisms, risk bringing forward gas production in a way that reduces the benefits received by the community from the gas resource.
- The gas industry faces strong resistance from sections of the community, partly due to the poor early record of some companies in dealing with landholders and local communities. Some gas companies have increased their engagement efforts recently.
 - There is scope for improvements to legislated compensation provisions to better reflect the costs to landholders from negotiating land access agreements and from the decline in the value of their properties. There is also scope for measures to reduce the costs of negotiating land access agreements.
 - A well-designed voluntary industry-wide code of practice for community and landholder engagement may improve outcomes.
- Community concerns about the environmental and public health risks of coal seam gas (CSG) activities have led to CSG moratoria in Victoria and New South Wales.
 - The expected benefits of the moratoria must be weighed against their expected costs
 - higher gas prices for users and reduced royalty and taxation revenue for governments.
 - Sound risk management does not equate to eliminating all risk. The scientific evidence suggests that the technical challenges and risks can be managed through a well-designed regulatory regime, underpinned by effective monitoring and enforcement of compliance.

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- Stakeholders have proposed changes to the way transmission capacity is allocated for some pipelines, including introducing open access principles and mandatory capacity trading provisions. Any benefits from these measures must be weighed against their costs, including the risk of undermining incentives for future investment in pipeline capacity.
 - Some stakeholders have argued that gas producers and pipeline owners are exercising market power and distorting outcomes in the eastern Australian gas market. While the Commission has not presented any conclusions on this issue, the evidence used to support the claims of the existence and exercise of market power, such as higher prices or difficulties securing gas supply contracts, may reflect the risks and uncertainties in a market that is undergoing considerable structural adjustment.

Housing Assistance and Employment in Australia

This paper was released on 9 April 2015 and examined the links between housing assistance - social housing and Commonwealth Rent Assistance - and employment.

A recommendation to move public housing tenants to market rents, while allowing them to receive Commonwealth Rent Assistance (CRA), has been made repeatedly over the past two decades. In its report, the Commission found that this policy change would be unlikely to improve employment rates among public housing tenants.

The Commission used large administrative datasets at both Commonwealth and State level to examine the links between housing assistance and participation in employment. Rent setting arrangements in public housing have long been thought to discourage participation in employment - prompting calls for policy change.

The Commission's research found that employment rates among income support recipients in public housing are likely to remain very low - at about ten per cent of the working age population - even if tenants are moved to market rents and CRA, if no other efforts are made to address directly the disadvantages of tenants.

The Commission's research also found no evidence that the potential problem of applicants avoiding employment while waiting for public housing in order to remain eligible represents a major concern in South Australia and Western Australia.

The project demonstrated the value of improving poorly-developed major administrative datasets in Australia. It drew on large administrative datasets - from the Commonwealth Departments of Human Services and Employment and the state housing authorities of South Australia and Western Australia. Administrative datasets represent a rich source of information, but are not generally available for research and evaluation in Australia, unlike in several other developed nations. Improved private and public researcher access to data of this type is likely to shed light on many other policy questions.

Efficiency in Health

This paper was released on 23 April 2015 and in it the Commission identified and assessed opportunities to improve the operation of Australia's health care system. This was based on a roundtable the Commission held with health policy experts in November 2014, as well as follow-up research.

The research paper found that there are significant opportunities to improve the efficiency of Australia's health care system through reforms that can be delivered without changing existing institutional and funding structures, and without delay. Benefits to patients are clear; and cost savings are equally self-evident.

In the paper, the Commission observes that shared and overlapping responsibilities for health care funding and service delivery often mean that many participants in the health system share responsibility, with the consequence that no one participant has the incentive to pursue reforms. Therefore, in outlining prospective areas for efficiency gains, and acknowledging the rough justice of it, the Commission proposed a responsible party and provided a roadmap, including timelines.

International Education Services

This paper was released on 30 April 2015 and focused on the two key policy levers the Government has at its disposal to influence International Education Services (IES):

- the visa system
- regulation aimed at providing quality assurance in the delivery of education to international students.

Key points from the report were:

- International students make a major economic and social contribution to Australia. In 2014, there were over 450 000 international students onshore, representing around 20 per cent of higher education students and 5 per cent of students enrolled in vocational education and training.
 - The international education sector is back on a high-growth trajectory following a major downturn from 2009 to 2011. Students from China and India account for 37 per cent of all international students in Australia.
- In parallel with rapidly growing demand for international education, principally from middle-income economies in Asia, competition for international students is intensifying among traditional provider countries and new entrants. While Australia's share of the international student market is only around 6 per cent, it has one of the highest concentrations of international students in total national tertiary enrolments.

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- Whether Australia remains an attractive destination will depend on how well education providers respond to students' expectations for their learning experience and provide a value proposition as technology and business models evolve.
 - The Australian Government has a role in providing a policy and regulatory framework that encourages behaviours by education providers, international students and other stakeholders that support its immigration and education policy objectives, and enables the market for international education services to function well within these policy settings.
 - The sustainability of international education exports is more closely linked to regulatory settings than in many other sectors. Regulatory settings around student visas and education quality are crucial.
 - The lack of a synchronised and coherent strategy for these two interacting policy levers has the potential to undermine the sector's ability to take advantage of the opportunities offered by growth in the global education market.
 - In terms of student visas, the introduction of streamlined visa processing has contributed to a reversal of the downward trend in international student numbers, with the higher education sector as the predominant beneficiary. However, the implementation of this system has introduced a number of perverse incentives that put at risk the quality and reputation of Australia's education systems.
 - The potential broadening of access to streamlined visa processing by a wider spectrum of education providers carries risks to the reputation of Australia's education system.
 - There are several options to mitigate these risks. The preferred option should provide the highest net benefit to Australia as a whole. But they all require a high level of engagement between the Department of Immigration and Border Protection and the Department of Education and Training.
 - In terms of education quality, the enforcement of regulatory settings has moved increasingly to a risk-based approach in recent years. However, the current emphasis on teaching standards should be rebalanced so that learning standards have a greater role in quality assurance.
 - There is also a strong case for publicly available information on the comparative quality ranking of providers in order to assist domestic and international students to make informed decisions about provider choice.
 - Further, Australian institutions should reduce their reliance on agents for student recruitment.

Superannuation Policy for Post-Retirement

This paper was released on 7 July 2015. This report provided a detailed analysis of two aspects of superannuation policy affecting the post-retirement phase:

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- What might happen if the age that individuals can access their superannuation (the 'preservation age') were raised?
 - Is the way people draw down their superannuation, and in particular, the use of lump sums, problematic?

As part of its research for this paper, the Commission developed a model - referred to as the Productivity Commission Retirement Model (PCRM) - to assess the effects of increasing the preservation age. Modelling supplementary papers are available from the tab below.

The key points were:

- Australia's ageing population will increase demands on the retirement income system. With this in mind, this report seeks to improve understanding of two elements of the retirement income puzzle — when and how individuals access their superannuation.
- The preservation age — the age at which people can access their superannuation savings — is considered by some to be an important policy lever in managing the transition to an older Australia. The Commission has found that, consistent with expectations, raising the preservation age encourages some people to work longer and accumulate more superannuation.
- Modelling undertaken by the Commission in order to better understand the response of individuals to a gradual increase in the preservation age to 65 suggests that:
 - there will be a modest increase in the participation rate of older workers (of around 2 percentage points in 2055) — mainly among those with higher wealth at or near retirement
 - households that delay their retirement are likely to do so by around two years and will have superannuation balances around 10 per cent larger in real terms when they retire
 - there will be an indicative annual fiscal improvement of around \$7 billion (in 2015 prices) in 2055 — mainly due to tax revenue increases from wealthier households
 - changing the preservation age will have little, if any, impact on the workforce participation of individuals who retire involuntarily — almost one half of men and over one-third of women who retire between the ages of 60 and 64.
- Once they have access to their superannuation savings, individuals are afforded much flexibility in drawing them down. Some consider that this discretion is desirable given the diverse circumstances of retirees. Others are concerned that it encourages individuals to exhaust their superannuation too quickly by taking lump sums and leads to more reliance on the Age Pension.
- The evidence suggests that most retirees are prudent in their drawdown behaviour. Less than 30 per cent of superannuation benefits are taken as lump sums. When retirees do take lump sums, they are most frequently used to pay down debt, invest in income stream products, and purchase durable goods that are used throughout retirement.

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- Lump sum use is not uniform, and is most prevalent among those with low superannuation balances (less than \$10 000). These households tend to take between half and all of their superannuation assets as a lump sum. The evidence suggests that this behaviour has little impact on Age Pension reliance.
 - In undertaking its analysis, the Commission has identified a range of policy areas that warrant further and collective attention. These include:
 - how involuntary retirement impacts policy outcomes
 - the way in which incentives inherent in the retirement income system affect individuals' savings and retirement decisions
 - how the retirement income system can better cater for the diverse circumstances and needs of retirees, particularly in the drawdown stage where 'one-size' never fits all.
 - how to best manage longevity risk given the demographic transition underway.
 - The retirement income system has seen ongoing change to its components, albeit with less focus on the drawdown phase. But its overarching objectives remain poorly defined. Ideally, future changes to the system would be guided by a common set of objectives, informed by the principles of sustainability and efficacy, and considered as part of a holistic review involving considered and extensive community consultation.

Conference 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.

Effects of Mutual Recognition of Imputation Credits

This paper by Tim Murray was released on 21 April 2015. It used a small, custom-built, international computable general equilibrium (CGE) model to analyse the potential impacts of implementing the mutual recognition of imputation credits (MRIC) between Australia and New Zealand.

The paper was presented at the *18th Annual Conference on Global Economic Analysis* in Melbourne on 17-19 June 2015.

Incorporating Household Survey Data into a CGE Model

This paper by Xiao-guang Zhang was released on 14 April 2015. It used an Australian Household Expenditure Survey (HES) dataset as an example to describe a simple procedure to integrate an entire sample of households into a computable general equilibrium (CGE) model.

As a proof-of-concept paper, the main focus is on the simple structure of the CGE model and database that facilitate the integration of household survey data.

The paper was presented at the *18th Annual Conference on Global Economic Analysis* in Melbourne on 17-19 June 2015.

An Introduction to Entropy Estimation of Parameters in Economic Models

This paper by Larry Cook and Philip Harslett was released on 14 April 2015. It provided an introductory guide to entropy estimation for economic modellers with a particular emphasis on estimating elasticities from limited time series data.

The objective is to provide all the information that researchers need (how it works, the importance of the assumptions, and when and how it should be used) to be able to use the technique confidently.

The paper was presented at the *18th Annual Conference on Global Economic Analysis* in Melbourne on 17-19 June 2015.

Staff research notes

Note: The views expressed in staff research notes are those of the authors and do not necessarily reflect the views of the Productivity Commission.

On Productivity: concepts and measurement

This note by Jenny Gordon, Shiji Zhao, Paul Gretton was released on 25 February 2015.

This note aimed to shed light on sources of productivity growth and whether productivity statistics are a good guide to productivity improvement.

Table C.1 Speeches and presentations by the Chair, Commissioners and staff, 2014-15

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Peter Harris AO, Chairman		
IPAA NSW State Conference, Sydney	Agility and effectiveness in the Public Service	Jul 2014
Melbourne Forum Members Luncheon, Melbourne	Guest discussion leader	Jul 2014
Infrastructure Partnership Australia Chairman's Dinner Series, Melbourne	Guest Speaker	Jul 2014
Trans-Tasman Business Circle Luncheon, Brisbane	Productivity – how do we get people excited?	Aug 2014
Department of Infrastructure and Regional Development 2014 Leadership Strategic Seminar Series, Canberra	Productivity Reform	Aug 2014
Melbourne University, Professional Practise in Policy Course, Melbourne	Professional Practice in Policy	Aug 2014
Clayton Utz, Unique Access Program: Productivity Outlook, Melbourne	Guest Speaker	Sep 2014
2014 IPA Infrastructure and Investment Conference, Melbourne	Guest Speaker	Sep 2014
OECD-NBER Joint Conference, Paris	Productivity growth and innovation in the long run	Sep 2014
CPA Congress, Australia's positioning in the region, Melbourne	Keynote panel discussion	Oct 2014
Leading Age Services Australia National Congress, Adelaide	Panellist	Oct 2014
IPAA QLD Spotlight on George Street Executive Forms, Brisbane	The performance and productivity puzzle	Oct 2014
Competition Policy Review International Conference, Canberra		Oct 2014
The Australian and Deutsche Bank Business Leaders Forum: 'going for growth', Melbourne	Panellist	Oct 2014
Royal Automobile Club of WA, 2014 Strategy Programme, Perth	Keynote speaker	Oct 2014
IPAA Tasmania Annual Emerging Leaders Breakfast Forum, Hobart	New Directions for the Public Service	Nov 2014
EABC Boardroom Luncheon Forum, Sydney	Guest Speaker	Nov 2014
Spotlight on George Street Executive Forms 2014, Brisbane	Chair of Forum: The performance and productivity puzzle	Oct 2014
International CEO Forum Luncheon, Melbourne	Guest speaker	Feb 2015

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Table C.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Peter Harris AO, Chairman (continued)		
Trans Tasman Business Circle: Getting Melbourne Moving, Road, Rail, Sea or Air, Melbourne	Panel Member	Feb 2015
Australian Logistics Council: Delivering for Australia Forum, Melbourne	Panel Member	Mar 2015
IPAA WA 'Red tape: problem or solution' conference, Perth		Mar 2015
Australian Domestic Gas Outlook Conference, Sydney	Curbing red tape for energy production – creating regulation nirvana	Mar 2015
Australia-Israel Chamber of Commerce Boardroom Luncheon address, Melbourne	Guest speaker	Apr 2015
University of Victoria Lifting Productivity Growth Economic Forum, Melbourne	Guest Speaker	Jun 2015
CEDA's State of the Nation Conference, Canberra	Innovation and productivity	Jun 2015
Crawford School of Public Policy 2 nd Australian Leadership Forum, Canberra	International Education Services	Jun 2015
Australia-Canada Economic Leadership Forum, Vancouver	Panellist	Jun 2015
Commissioners		
Pathways to Growth: the reform imperative, Melbourne (Mike Woods)	Chair: Session title: Can the Commonwealth drive infrastructure Panellist: Session title: The political economy of Achieving reform	Jul 2014
UNSW Law Seminar, Sydney (Warren Mundy)	Commission's draft report on Access to Justice	Jul 2014
COTA Annual Conference, Canberra (Mike Woods)	Ageing Australia, preparing for the future	Jul 2014
Murdoch Children's Research Institute Seminar, Melbourne (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Jul 2014
Ministerial Advisory Council, Brisbane (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Jul 2014
SEAANZ Conference: Enhancing SME Success in the Digital Economy, Sydney (Warren Mundy)	Regulators' involvement with small business	Jul 2014
Murdoch Children's Research Institute Seminar, Melbourne (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Jul 2014
Ministerial Advisory Council, Brisbane (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Jul 2014

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Table C.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Commissioners (continued)		
ANZSOG Conference 2014, Canberra (Alison McClelland)	Prosperity for all? Sharing the benefits while growing the pie	Aug 2014
ANZSOG Conference 2014, Canberra (Patricia Scott)	Rethinking Industry Policy	Aug 2014
University of Griffith Speakers' Forum, Brisbane (Paul Lindwall)	Role of the Commission and Commission's final report on Public Infrastructure	Aug 2014
Australian Education, Early Childhood Development and Youth Affairs Senior Officials Committee, Canberra (Wendy Craik and Rosalyn Bell)	Commission's draft report on Childcare and Early Learning	Aug 2014
ANZ Institute of Insurance & Finance: Industry Event Series, Sydney (Karen Chester)	Commission's draft report on Natural Disaster Funding	Oct 2014
National Conference on University Governance, Melbourne (Mike Woods)	Guest speaker:	Oct 2014
Ports Australia Biennial Conference, Perth (Paul Lindwall)	Participant/discussant	Oct 2014
BAPPNAS Indonesian Training, Canberra (Warren Mundy)	Guest speaker	Oct 2014
National Conference on University Governance, Melbourne (Wendy Craik)	Can universities really embrace productivity reform?	Oct 2014
Department of Industry's Economic and Analytical Services Division, Canberra (Paul Lindwall)	The role of the Commission to the 'congregate'	Sept 2014
The Sydney Institute, Sydney (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Sept 2014
Early Childhood Development Conference, Brisbane (Wendy Craik)	Commission's draft report on Childcare and Early Learning	Sept 2014
Regulatory Reform Review of Chile, Chile (Jonathan Coppel)	External Peer Reviewer	Nov 2014
Roundtable on the role of risk in governing in the face of complexity, Canberra (Patricia Scott)	Using admin data to achieve better policy outcomes	Nov 2014
Australian Airports Association's (AAA) National Conference, Gold Coast (Warren Mundy)	Meeting the Needs of Airport Customers - Passengers and Airlines	Nov 2014
NSW Coastal Conference, Ulladulla (Wendy Craik)	A new approach to managing the NSW Marine Estate	Nov 2014
Innovations in PPP Symposium, Canberra (Warren Mundy)	Commission's final report on Public Infrastructure	Dec 2014

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Table C.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Commissioners (continued)		
Western Economic Association International Conference, Wellington NZ (Warren Mundy)	Expost regulatory review in Australia	Jan 2015
Infrastructure Investment & Asset Recycling Conference, Sydney (Paul Lindwall)	Examining the Public Infrastructure Review	Feb 2015
Monash Law School Public Lecture, Melbourne (Warren Mundy)	An economist and a Lawyer went to lunch	Feb 2015
Innovations in Infrastructure – beyond the G20, Canberra (Paul Lindwall)	National Economic Perspectives on Infrastructure	Feb 2015
Business for the Rule of Law, Sydney (Warren Mundy)	Participate: Chatham House workshop	Mar 2015
Infrastructure Investment and Asset Recycling Conference, Sydney (Paul Lindwall)	Examining the Public Infrastructure Review	Feb 2015
Annual Civil Justice Research and Teaching Conference, Sydney (Warren Mundy)	Commission's final report on Access to Justice	Feb 2015
ASEAN – OECD Conference on Good Regularity Practice, Kuala Lumpur (Jonathan Coppel)	Regulator Collaboration – Mutual Recognition	Mar 2015
The Cultural Diversity Conference, Sydney (Warren Mundy)	Diversity and the Commission's final report on Access to Justice	Mar 2015
RBA Small Business Conditions and Finance Conference, Sydney (Warren Mundy)	Financing Small Business	Mar 2015
Federal of Victorian Community Legal Centres, Melbourne (Warren Mundy)	Commission's final report on Access to Justice	Apr 2015
University of Sydney, Sydney (Paul Lindwall)	Commission's final report on Public Infrastructure	Apr 2015
Addressing entrenched disadvantage, Brisbane (Alison McClelland)	Guest Speaker	Apr 2015
Federal of Victorian Community Legal Centres, Melbourne (Warren Mundy)	Commission's final report on Access to Justice	Apr 2015
University of Sydney, Sydney (Paul Lindwall)	Commission's final report on Public Infrastructure	Apr 2015
Addressing entrenched disadvantage, Brisbane (Alison McClelland)	Guest Speaker	Apr 2015
Justice without Barriers — technology for greater access to justice, Brisbane (Warren Mundy)	Technology and Commission's final report on Access to Justice	May 2015
QAALS Annual Conference, Brisbane (Warren Mundy)	Commission's final report on Access to Justice	May 2015
ARITA Annual Conference, Perth (Warren Mundy)	Commission's draft report on Business, Set-up, Transfer and Closure	May 2015

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Table C.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Commissioners (continued)		
APEC Competition Law, Regulation and Small Business Symposium, Singapore (Warren Mundy)	Competition Regulator Engagement with Small Business	May 2015
Public Forum, George Washington University, Washington (Warren Mundy)		May 2015
International Small Business Conference, Dubai (Warren Mundy)	Regulator Engagement with Small Business	June 2015
Council of Australian Tribunals Annual Conference, Melbourne (Angela MacRae)	The role of tribunals and Commission's final report on Access to Justice recommendations	June 2015
5 th National Access to Justice and Pro Bono Conference, Sydney (Warren Mundy)	Valuing Justice: How much justice can we afford	June 2015
Centre for Justice Innovation, Melbourne (Warren Mundy)	Commission's final report on Access to Justice	June 2015
Staff		
Australian Conference of Economists and Econometric Society Australasian Meeting, Hobart (Lou Will)	Administration. Data in policy relevant research	Jul 2014
Sydney Business School, Sydney (Owen Gabbitas)	Map of the Australian Economy and its Wealth Drivers	Jul 2014
Myanmar Development Resource Institute; Trade and Investment in Myanmar's National Reform and Development, Myanmar (Paul Gretton)	Economic Openness, Domestic Institutions & Infrastructure Needs	Jul 2014
Union of Myanmar Federation of Chambers of Commerce and Industry; How Myanmar is Improving Ease of Doing Business, Myanmar (Paul Gretton)	GDP growth, reform in Australia and the PPP framework and notes on the evolution of a reform advisory organization – the Productivity Commission	Jul 2014
Crawford School's Executive Education Masterclasses, Canberra (Vernon Topp)	Productivity in the utilities industry	Oct 2014
Australian Frontiers of Science, Canberra (Jenny Gordon)	Economic impact of basic research	Dec 2014
EABER Launch Myanmar Trade and Investment Strategy, Myanmar (Paul Gretton)	National reform institutions	Feb 2015
Address by Professor Bernd Fitzenberger, Albert Ludwigs University of Freiburg, Melbourne (Patrick Laplagne)	Labour relations for a resilient economy	Feb 2015
Productivity and Digital Economy seminar, Canberra (Daryl Quinlivan)	Measuring ICT Impact	Feb 2015

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Table C.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Staff (continued)		
Closing the Gap in Primary Health Care Forum, Brisbane (Catherine Andersson)	OID: Key indicators 2014	Apr 2015
EABER's promoting future economic prosperity in the Asian region, Canberra (Jenny Gordon)	Australia's productivity challenges and Investing for future regional prosperity	Apr 2015
Canberra's Economic Society, Canberra (Rosalyn Bell)	Commission's final report on Childcare and Early Childhood Learning	June 2015
APEC Building Capacity for Enhancing Competitive Neutrality to Support Price Liberalization for Essential Products, Vietnam (Rosalie McLachlan)	Australia's Experiences on Ensuring Competitive Neutrality between State-owned Enterprises and Private Firms	June 2015
APEC Workshop on Public Consultation Processes, Malaysia (Anthony Housego)	Public Consultation and the work of the Productivity Commission in Australia	June 2015
PwC Capital Markets 2015 Forum, Sydney (Rosalyn Bell)	Commission's draft report on Business Set-up, transfer and closure	June 2015

Table C.2 International delegations and visitors, 2014-15

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
Korean Legislative Research Institute	The role and functions of the Commission and the Free Trade Agreement (Andrew Irwin & Anthony Housego)	11 Aug (C)
Chinese Delegation from the Hangzhou Bureau of Statistics, Zhejiang Province	Discussion on the Commission's demographic modelling (Patrick Jomini)	13 Nov (M)
Chinese Delegation from the Development Research Centre of State Council	The role and functions of the Commission (Paul Gretton, Shiji Zhao & Anthony Housego)	16 Sept (C)
Indonesia Ministry of Trade	The role and functions of the Commission (Jenny Gordon & Anthony Housego)	25 Sept (C)
BAPPENAS delegation	The role and functions of the Commission (Daryl Quinlivan)	27 Oct (C)
Chinese Delegation from the Department of Foreign Economic Relations of the Development Research Centre	The role and functions of the Commission and recent work by the Commission and also DRC (Mike Woods & Paul Gretton)	5 Dec (C)

(C) Canberra (M) Melbourne

D Publications

This appendix provides a list of Commission inquiry and research reports, Commission research papers and major speeches by the Chair in 2014–15. 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.

- *Childcare and Early Childhood Learning*, Draft Report, 22 July 2014
- *Natural Disaster Funding*, Draft Report, 25 September 2014
- *Business Set-up, Transfer and Closure*, Draft Report, 21 May 2015
- *Mutual Recognition Schemes*, Draft Report, 26 June 2015

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, CanPrint Communications and the Commission's website. The dates listed are signing dates.

- *Costs of Doing Business: Dairy Product Manufacturing*, September 2014
- *Costs of Doing Business: Retail Trade Industry*, September 2014
- *Access to Justice*, Final Inquiry Report No. 72, 5 September 2014
- *Childcare and Early Childhood Learning*, Final Report No 73, 31 October 2014
- *Natural Disaster Funding*, Final Report No 74, 17 December 2014

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 CanPrint Communications and from the Commission's website.

- *Overcoming Indigenous Disadvantage: Key Indicators 2014* (November 2014)
- *Indigenous Expenditure Report 2014* (December 2014)
- *Report on Government Services 2015* (January–February 2015)
- *Report on Government Services 2015: Indigenous Compendium* (April 2015)

Research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publications agent CanPrint Communications, and from the Commission's website.

Commission research papers

Copies of these research papers are available from the Commission's website.

- *Australia's International Tourism Industry*, February 2015
- *Examining Barriers to More Efficient Gas Markets*, March 2015
- *Housing Assistance and Employment in Australia*, April 2015
- *International Education Services*, April 2015
- *Efficiency in Health*, April 2015

Annual Reports

- *Annual Report 2013-14* (October 2014)
- *Trade & Assistance Review 2013-14* (June 2015)

Chairman's speeches

Copies of the following speeches by Peter Harris are available from the Commission's website.

- *Infrastructure Reform* (September 2014)
- *Remarks at the 2015 Domestic Gas Outlook Conference* (March 2015)

Staff research notes

Copies of these staff research notes are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *On Productivity: concepts and measurement* (February 2015)

Other publications

- *PC News*, a newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (August 2014, May 2015).

E Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2014-15.

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INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Productivity Commission for the year ended 30 June 2015, which comprise:

- Statement by the Chairman and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- 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.

Accountable Authority's Responsibility for the Financial Statements

The Chairman of the Productivity Commission is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chairman is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 entity's preparation and fair presentation of the

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, 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 my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Productivity Commission:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Productivity Commission as at 30 June 2015 and its financial performance and cash flows for the year then ended.

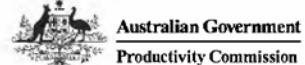
Australian National Audit Office



Phillip Sands
Executive Director

Delegate of the Auditor-General

Canberra
27 August 2015



Locked Bag 2
Collins Street East
Melbourne VIC 8003
Telephone 03 9653 2100
Facsimile 03 9653 2199
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 2015 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Productivity Commission will be able to pay its debts as and when they fall due.


Peter Harris AO
Chairman

25 August 2015


Brian Scammell
Chief Finance Officer

27 August 2015

Statement of Comprehensive Income

for the period ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
NET COST OF SERVICES			
Expenses			
Employee benefits	4A	23,902	29,544
Suppliers	4B	5,995	6,667
Depreciation and amortisation	4C	1,054	1,071
Finance costs		17	17
Total Expenses		<u>30,968</u>	<u>37,299</u>
Own-Source Income			
Sale of goods and rendering of services	5A	856	885
Resources received free of charge	5B	50	50
Total own-source income		<u>906</u>	<u>935</u>
Net contribution by services		<u>30,062</u>	<u>36,364</u>
Revenue from Government		<u>33,263</u>	<u>36,359</u>
Surplus / (Deficit)		<u>3,201</u>	<u>(5)</u>
Total comprehensive income		<u>3,201</u>	<u>(5)</u>

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

Statement of Financial Position

as at 30 June 2015

		2015	2014
	Notes	\$'000	\$'000
ASSETS			
Financial Assets			
Cash and cash equivalents		346	335
Trade and other receivables	7A	27,208	24,356
Total financial assets		27,554	24,691
Non-Financial Assets			
Leasehold improvements	8A, D	3,324	4,142
Property, plant and equipment	8B, D	600	558
Intangibles	8C, D	198	148
Prepayments *		562	275
Total non-financial assets		4,684	5,123
Total Assets		32,238	29,814
LIABILITIES			
Payables			
Suppliers	9A	386	415
Other payables	9B	3,632	3,756
Total payables		4,018	4,171
Provisions			
Employee provisions	10A	10,979	11,914
Other provisions	10B	514	497
Total provisions		11,493	12,411
Total Liabilities		15,511	16,582
Net Assets		16,727	13,232
EQUITY			
Contributed equity		3,569	2,714
Reserves		2,771	2,771
Retained surplus		10,387	7,747
Total Equity		16,727	13,232

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

* expected to be received in no more than 12 months

Statement of Changes in Equity

for the period ended 30 June 2015

	Retained earnings		Asset revaluation surplus		Contributed equity		Total equity	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance								
Balance carried forward from previous period	7,747	7,752	2,771	2,771	2,714	2,435	13,232	12,958
Comprehensive Income								
Surplus/(Deficit) for the period	3,201	(5)	–	–	–	–	3,201	(5)
Total comprehensive income	3,201	(5)	–	–	–	–	3,201	(5)
Transactions with owners								
<i>Distributions to Owners</i>								
Returns of Capital	–	–	–	–	(561)	–	(561)	–
Reductions not formally recognised	–	–	–	–	(561)	–	(561)	–
<i>Contributions by Owners</i>								
Departmental capital budget	–	–	–	–	855	279	855	279
Sub-total transactions with owners	–	–	–	–	294	279	294	279
Closing balance as at 30 June	10,948	7,747	2,771	2,771	3,008	2,714	16,727	13,232

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

Cash Flow Statement

for the period ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		31,848	36,500
Sales of goods and rendering of services		1,023	843
Net GST received		609	640
Total cash received		33,480	<u>37,983</u>
Cash used			
Employees		24,831	30,236
Suppliers		7,228	6,908
Section 74 receipts transferred to OPA		1,410	972
Total cash used		33,469	<u>38,116</u>
Net cash from (used by) operating activities	11	11	<u>(133)</u>
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		328	<u>87</u>
Total cash used		328	<u>87</u>
Net cash (used by) investing activities		(328)	<u>(87)</u>
FINANCING ACTIVITIES			
Cash received			
Contributed equity		328	<u>87</u>
Total cash received		328	<u>87</u>
Net cash from financing activities		328	<u>87</u>
Net increase (decrease) in cash held		11	<u>(133)</u>
Cash and cash equivalents at the beginning of the reporting period		335	<u>468</u>
Cash and cash equivalents at the end of the reporting period		346	<u>335</u>

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

Schedule of Commitments

as at 30 June 2015

	2015	2014
	\$'000	\$'000
BY TYPE		
Commitments receivable		
GST recoverable on commitments	<u>(1,422)</u>	<u>(1,751)</u>
Total commitments receivable	<u>(1,422)</u>	<u>(1,751)</u>
Commitments payable		
Other commitments		
Operating leases ¹	<u>15,042</u>	18,807
Other commitments ²	<u>601</u>	450
Total other commitments	<u>15,643</u>	19,257
Net commitments by type	<u>14,221</u>	<u>17,506</u>
BY MATURITY		
Commitments receivable		
Other commitments receivable		
Within 1 year	(365)	(351)
Between 1 to 5 years	(875)	(1,026)
More than 5 years	<u>(182)</u>	<u>(374)</u>
Total other commitments receivable	<u>(1,422)</u>	<u>(1,751)</u>
Commitments payable		
Operating lease commitments		
Within 1 year	3,433	3,471
Between 1 to 5 years	9,604	11,222
More than 5 years	<u>2,005</u>	<u>4,114</u>
Total operating lease commitments	<u>15,042</u>	<u>18,807</u>
Other commitments		
Within 1 year	587	388
Between 1 to 5 years	13	62
More than 5 years	<u>1</u>	<u>—</u>
Total other commitments	<u>601</u>	<u>450</u>
Net commitments by maturity	<u>14,221</u>	<u>17,506</u>

Note: Commitments are GST inclusive where relevant.

¹ Operating leases included are effectively non-cancellable and comprise:

Leases for office accommodation and carparking

Lease payments are subject to a fixed percentage annual increase in accordance with the lease agreement. In Melbourne, the current lease expires on 31 May 2021, with a five year option. In Canberra the current lease 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 schedule 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 Reporting Period
- 3 Net Cash Appropriation Arrangements
- 4 Expenses
- 5 Income
- 6 Fair Value Measurement
- 7 Financial Assets
- 8 Non-Financial Assets
- 9 Payables
- 10 Provisions
- 11 Cash Flow Reconciliation
- 12 Contingent Liabilities and Assets
- 13 Senior Management Personnel Remuneration
- 14 Financial Instruments
- 15 Financial Assets Reconciliation
- 16 Appropriations
- 17 Reporting of Outcomes
- 18 Budgetary Reports and Explanations of Major Variances

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of the Productivity Commission

The Productivity Commission (the Commission) is an Australian Government controlled entity. It is a not-for-profit entity. The 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. The Commission's work extends to the public and private sectors, including areas of State, Territory and local government, as well as federal responsibility.

The Commission is structured to meet one outcome:

Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Activities contributing toward this outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Commission in its own right.

The continued existence of the Commission in its present form and with its present program is dependent on Government policy and on continuing funding by Parliament for the Commission's administration and program.

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- Financial Reporting Rule (FRR) for reporting periods ending on or after 1 July 2014; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the statement of financial position 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 executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the Commission has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements has been taken to be the depreciated replacement cost of similar leasehold improvements as determined by an independent valuer.
- The long service leave liability is calculated using the shorthand method developed by the Australian Government Actuary. This method is impacted by fluctuations in the Commonwealth Government 10 year Treasury Bond rate.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

The amendment to AASB 13 *Fair Value Measurement* to exempt not-for-profit public sector entries from certain requirements has been adopted early.

No other accounting standard has been adopted earlier than the application date as stated in the standard.

Future Australian Accounting Standard Requirements

All other new standards, revised standards, amendments to standards or interpretations that were issued by the Australian Accounting Standards Board prior to the sign-off date and are applicable to current and future reporting period(s) are not expected to have a future material impact on the Commission's financial statements.

1.5 Revenue

Revenue from the sale of goods is recognised when:

- a) the risks and rewards of ownership have been transferred to the buyer;
- b) the Commission retains no managerial involvement or effective control over the goods;
- c) the revenue and transaction costs incurred can be reliably measured; and
- d) 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:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) 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 the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

Resources Received Free of Charge

Resources received free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as revenue and the balance reflects audit services provided by the ANAO for no cost.

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 entity as a consequence of a restructuring of administrative arrangements (Refer to Note 1.6).

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government 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.

1.6 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as ‘equity injections’ for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Other Distributions to Owners

The FRRs require that distributions to owners be debited to contributed equity unless it is in the nature of a dividend.

1.7 Employee Benefits

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits expected within twelve months of the end of reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that applied at the time the leave is taken, including the Commission's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by use of the Australian Government Actuary's shorthand method using the Standard Commonwealth sector probability profile. The estimate of the present value of the liability takes into account staff turnover rates and expected pay increases.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. The Commission recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations. The amount of the provision is nil (2014: \$152,410).

Superannuation

The majority of staff at 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 in the Department of Finance's administered schedules and notes.

The Commission makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. 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 for the final fortnight of the year.

1.8 Leases

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets. There are no finance leases.

1.9 Borrowing Costs

All borrowing costs are expensed as incurred.

1.10 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes cash on hand, deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.11 Financial Assets

The Commission classifies its financial assets as loans and receivables.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost – if there is objective evidence that an impairment loss has been incurred for loans and receivables held at amortised cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

1.12 Financial Liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities. The Commission only holds other financial liabilities.

Financial liabilities are recognised and derecognised upon ‘trade date’.

Other Financial Liabilities

Other financial liabilities, including supplier and other payables, are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.13 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the relevant notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Details of each class of contingent liabilities and contingent assets are disclosed in Note 12: Contingent Liabilities and Contingent 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’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 statement of financial position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to ‘make-good’ provisions in property leases taken up by the Commission where there exists an obligation to ‘make-good’ premises. These costs are included in the value of the Commission’s leasehold improvements with a corresponding provision for the ‘make-good’ recognised.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets’ fair values at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Assets were revalued by the Australian Valuation Office (AVO) as at 30 June 2013. The revaluation increment for leasehold improvements and decrement for plant and equipment were credited and debited respectively to the asset revaluation reserve by asset class, and included in the equity section of the statement of financial position; decrements for plant and equipment were also expensed.

At 30 June 2015 management reviewed the valuation at 30 June 2013 and concluded that the fair value does not differ materially from the carrying amount; and is satisfied that the carrying amount does not exceed the recoverable amount.

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 in surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values 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:

	2015	2014
Leasehold improvements and make-good	Lease term	Lease term
Plant and equipment	3 to 20 years	3 to 20 years
Intangibles (computer software)	5 years	5 years

Impairment

All assets were assessed for impairment at 30 June 2015. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Commission were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.16 Intangibles

The Commission's intangibles comprise commercially purchased software for internal use. 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 (2014: 5 years).

All software assets were assessed for indications of impairment as at 30 June 2015. No indicators were identified.

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:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

Note 2: Events after the Reporting Period

There was no subsequent event that had the potential to significantly affect the on-going structure and financial activities of the Commission.

Note 3: Net Cash Appropriation Arrangements

	2015	2014
	\$'000	\$'000
Total comprehensive income / (loss) less depreciation/amortisation expenses previously funded through revenue appropriations ¹	4,255	1,066
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>(1,054)</u>	<u>(1,071)</u>
Total comprehensive income / (loss) – as per the Statement of Comprehensive Income	<u>3,201</u>	<u>(5)</u>

¹ From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expense ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

Note 4: Expenses

Note 4A: Employee Benefits

	2015	2014
	\$'000	\$'000
Wages and salaries	18,147	21,076
Superannuation:		
Defined contribution plans	1,072	1,169
Defined benefit plans	2,389	2,776
Leave and other entitlements	2,022	3,041
Separation and redundancies	<u>272</u>	<u>1,482</u>
Total employee benefits	<u>23,902</u>	<u>29,544</u>

Note 4B: Suppliers

	2015	2014
	\$'000	\$'000
Goods and services supplied or rendered		
Consultants	39	27
Contractors	202	174
Travel	724	856
IT services	591	612
Other administration expenses	<u>1,568</u>	<u>1,873</u>
Total goods and services supplied or rendered	<u>3,124</u>	<u>3,542</u>
<i>Goods supplied in connection with</i>		
Related entities	-	4
External parties	<u>135</u>	<u>134</u>
Total goods supplied	<u>135</u>	<u>138</u>
<i>Services rendered in connection with</i>		
Related entities	306	468
External parties	<u>2,683</u>	<u>2,936</u>
Total services rendered	<u>2,989</u>	<u>3,404</u>
Total goods and services supplied or rendered	<u>3,124</u>	<u>3,542</u>
Other supplier expenses		
<i>Operating lease rentals in connection with</i>		
External parties:		
Minimum lease payments	2,810	3,092
Workers compensation expenses	<u>61</u>	<u>33</u>
Total other supplier expenses	<u>2,871</u>	<u>3,125</u>
Total supplier expenses	<u>5,995</u>	<u>6,667</u>

Note 4C: Depreciation and Amortisation

	2015	2014
	\$'000	\$'000
Depreciation:		
Buildings - leasehold improvements	818	818
Property, plant and equipment	<u>193</u>	<u>205</u>
Total depreciation	<u>1,011</u>	<u>1,023</u>
Amortisation:		
Intangibles:		
Computer software	<u>43</u>	<u>48</u>
Total amortisation	<u>43</u>	<u>48</u>
Total depreciation and amortisation	<u>1,054</u>	<u>1,071</u>

Note 5: Income

Own Source Revenue

Note 5A: Sale of Goods and Rendering of Services

	2015 \$'000	2014 \$'000
Sale of goods in connection with		
External parties	<u>1</u>	<u>4</u>
Total sale of goods	<u>1</u>	<u>4</u>
Rendering of services in connection with		
Related entities	<u>855</u>	<u>841</u>
External parties	<u>-</u>	<u>40</u>
Total rendering of services	<u>855</u>	<u>881</u>
Total sales of goods and rendering of services	<u>856</u>	<u>885</u>

Note 5B: Resources Received Free of Charge

	2015 \$'000	2014 \$'000
Resources received free of charge		
Remuneration of auditors		
Financial statement audit services were provided free of charge to the Commission by the Australian National Audit Office (ANAO).	<u>50</u>	<u>50</u>
Total resources received free of charge	<u>50</u>	<u>50</u>

Note 6: Fair Value Measurement

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Note 6A: Fair Value Measurements, Valuation Techniques and Inputs Used

	Fair value measurements at the end of reporting period			For Levels 2 and 3 fair value measurements
	2015	2014	Category	
	\$'000	\$'000	(Level 1, 2 or 3)	
Non-financial assets				
Leasehold improvements	3,324	4,142	Level 3	Depreciated Replacement Cost(DRC)
Other property, plant and equipment	600	558	Level 2	Market Approach
Total fair value measurements of assets in the statement of financial position	3,924	4,700		

¹ The highest and best use of all non-financial assets are the same as their current use.

² No change in valuation technique occurred during the period.

Note 7: Financial assets

Note 7A: Trade and Other Receivables

	2015	2014
	\$'000	\$'000
Goods and services receivables in connection with		
Related entities	124	127
External parties	37	36
Total goods and services receivables	161	163
Appropriations receivable		
Existing programs ¹	26,917	24,126
Total appropriations receivable	26,917	24,126
Other receivables:		
GST receivable from the Australian Taxation Office	121	56
Other	9	11
Total other receivables	130	67
Total trade and other receivables (gross)	27,208	24,356

All receivables are not overdue and are expected to be recovered within 12 months.

Credit Terms for goods and services were within 30 days (2014: 30 days).

¹ also see Note 16.

Note 8: Non-Financial Assets

Note 8A: Leasehold Improvements

	2015 \$'000	2014 \$'000
Leasehold improvements:		
Fair value	<u>4,882</u>	4,921
Accumulated depreciation	<u>(1,558)</u>	<u>(779)</u>
Total leasehold improvements	<u><u>3,324</u></u>	<u><u>4,142</u></u>
Total land and buildings	<u><u>3,324</u></u>	<u><u>4,142</u></u>

No indicators of impairment were found for leasehold improvements.

No leasehold improvements are expected to be sold or disposed of within the next 12 months.

Note 8B: Property, Plant and Equipment

	2015 \$'000	2014 \$'000
Property, plant and equipment:		
Fair value	<u>1,004</u>	769
Accumulated depreciation	<u>(404)</u>	<u>(211)</u>
Total property, plant and equipment	<u><u>600</u></u>	<u><u>558</u></u>

No indicators of impairment were found for property, plant and equipment.

No property, plant or equipment is expected to be sold or disposed of within the next 12 months.

Note 8C: Intangibles

	2015 \$'000	2014 \$'000
Computer software:		
Purchased	<u>827</u>	734
Accumulated amortisation	<u>(629)</u>	<u>(586)</u>
Total intangibles	<u><u>198</u></u>	<u><u>148</u></u>

No indicators of impairment were found for intangible assets.

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 8D: Analysis of Property, Plant and Equipment, and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2014-15)

	Leasehold improvements	Property, plant & equipment	Computer software purchased	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2014				
Gross book value	4,921	769	734	6,424
Accumulated depreciation / amortisation and impairment	(779)	(211)	(586)	(1,576)
Net book value 1 July 2014	4,142	558	148	4,848
Additions:				
By purchase	—	235	93	328
Depreciation / amortisation expense	(818)	(193)	(43)	(1,054)
Net book value 30 June 2015	3,324	600	198	4,122
Net book value as of 30 June 2015 represented by:				
Gross book value	4,882	1,004	827	6,713
Accumulated depreciation/amortisation and impairment	(1,558)	(404)	(629)	(2,591)
Net book value as of 30 June 2015	3,324	600	198	4,122

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2013-14)

	Leasehold improvements	Property, plant & equipment	Computer software purchased	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2013				
Gross book value	4,960	722	693	6,375
Accumulated depreciation / amortisation and impairment	—	(5)	(538)	(543)
Net book value 1 July 2013	4,960	717	155	5,832
Additions:				
By purchase	—	46	41	87
Depreciation / amortisation expense	(818)	(205)	(48)	(1,071)
Net book value 30 June 2014	4,142	558	148	4,848
Net book value as of 30 June 2014 represented by:				
Gross book value	4,921	769	734	6,424
Accumulated depreciation/amortisation and impairment	(779)	(211)	(586)	(1,576)
Net book value as of 30 June 2014	4,142	558	148	4,848

Note 9: Payables

Note 9A: Suppliers

	2015	2014
	\$'000	\$'000
Trade creditors and accruals	<u>386</u>	415
Total suppliers payables	<u>386</u>	<u>415</u>
Supplier payables in connection with		
Related entities	76	197
External parties	<u>310</u>	218
Total suppliers payables	<u>386</u>	<u>415</u>

All Supplier payables are expected to be settled within 12 months.

Settlement was usually made within 30 days.

Note 9B: Other Payables

	2015	2014
	\$'000	\$'000
Wages and salaries	660	660
Superannuation	117	113
Prepayments received/unearned income	305	145
Rent (lease) payable	1,216	1,279
Lease incentive	<u>1,334</u>	1,559
Total other payables	<u>3,632</u>	<u>3,756</u>
Other payables expected to be settled		
No more than 12 months	1,476	1,143
More than 12 months	<u>2,156</u>	2,613
Total other payables	<u>3,632</u>	<u>3,756</u>

Note 10: Provisions

Note 10A: Employee Provisions

	2015 \$'000	2014 \$'000
Leave	10,979	11,762
Separations and redundancies	—	152
Total employee provisions	<u>10,979</u>	<u>11,914</u>
Employee provisions expected to be settled		
No more than 12 months	316	229
More than 12 months	10,663	11,685
Total employee provisions	<u>10,979</u>	<u>11,914</u>

Note 10B: Other Provisions

	<i>Provision for restoration \$'000</i>
Carrying amount 1 July 2014	497
Unwinding of discount or change in discount rate	— 17
Closing balance 2015	<u>514</u>

The Commission currently has agreements for the leasing of premises which have provisions 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 these obligations.

Note 11: Cash Flow Reconciliation

	2015	2014
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per		
Cash flow statement	346	335
Statement of financial position	<u>346</u>	<u>335</u>
Discrepancy	<u><u>=</u></u>	<u><u>=</u></u>
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(30,062)	(36,364)
Revenue from Government	<u>33,263</u>	<u>36,359</u>
Adjustments for non-cash items		
Depreciation / amortisation	<u>1,054</u>	<u>1,071</u>
Movements in assets / liabilities:		
Assets		
(Increase) / decrease in net receivables	(2,886)	(887)
(Increase) / decrease in prepayments	<u>(287)</u>	<u>223</u>
Liabilities		
Increase / (decrease) in employee provisions	(935)	(737)
Increase / (decrease) in supplier payables	<u>(29)</u>	<u>36</u>
Increase / (decrease) in other payables	<u>(124)</u>	<u>149</u>
Increase / (decrease) in other provisions	<u>17</u>	<u>17</u>
Net cash from / (used by) operating activities	<u><u>11</u></u>	<u><u>(133)</u></u>

Note 12: Contingent Assets and Liabilities

At 30 June 2015, 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. (2014: Nil)

The Commission had no significant remote contingencies.

Note 13: Senior Management Personnel Remuneration

	2015	2014
	\$	\$
Short-term employee benefits:		
Salary	<u>5,187,688</u>	<u>6,315,206</u>
Total short-term employee benefits	<u>5,187,688</u>	<u>6,315,206</u>
 Post-employment benefits:		
Superannuation	<u>979,267</u>	<u>1,122,103</u>
Total post-employment benefits	<u>979,267</u>	<u>1,122,103</u>
 Other long-term employee benefits:		
Annual leave accrued	<u>456,660</u>	<u>523,845</u>
Long-service leave	<u>148,890</u>	<u>170,795</u>
Total other long-term employee benefits	<u>605,550</u>	<u>694,640</u>
 Termination benefits:		
Redundancy payment	<u>-</u>	<u>100,282</u>
Total termination benefits	<u>-</u>	<u>100,282</u>
 Total senior executive remuneration expenses	<u>6,772,505</u>	<u>8,232,231</u>

Notes:

1. This note includes remuneration of members of the Commission and employees in the Senior Executive Service.
2. The total number of senior management personnel that are included in the table above are 29. (2014: 30)

Note 14: Financial Instruments

Note 14A: Categories of financial instruments

	2015	2014
	\$'000	\$'000
Financial Assets		
Loans and receivables		
Cash and cash equivalents	346	335
Trade receivables	<u>161</u>	<u>163</u>
Carrying amount of financial assets	<u>507</u>	<u>498</u>
Financial Liabilities		
At amortised cost:		
Payables – suppliers	<u>386</u>	<u>415</u>
Carrying amount of financial liabilities	<u>386</u>	<u>415</u>

Note 14B: Net income and expense from financial assets

There is no income or expense from financial assets – loans and receivables in the year ending 30 June 2015. (2014: nil)

Note 14C: Net income and expense from financial liabilities

There is no income or expense from other financial liabilities in the year ending 30 June 2015. (2014: nil)

Note 14D: Fair value of financial instruments

There are no financial instruments held at 30 June 2015 where the carrying amount is not a reasonable approximation of fair value. (2014: nil)

Note 14E: Credit Risk

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from the potential default of a debtor. This amount is equal to the total of trade receivables (2015: \$161,000 and 2014: \$163,000). The Commission has assessed that there is minimal risk of default on payment.

The Commission's credit risk is reduced as it mainly deals with other government agencies.

No financial instruments were impaired in 2015. (2014: nil)

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 7A.

Note 14F: Liquidity Risk

The Commission's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the Commission will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to the Commission (eg. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Commission is funded via appropriation 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 record of default.

All financial liabilities mature within one year. (2014: one year)

The Commission has no derivative financial liabilities in either the current or prior year.

Note 14G: Market Risk

The Commission holds basic financial instruments that do not expose the Commission to certain market risks.

The Commission is not exposed to currency risk, other price risk or interest rate risk.

Note 15: Financial Assets Reconciliation

	2015	2014
	\$'000	\$'000
<u>Financial Assets</u>		
Total financial assets as per statement of financial position	27,554	24,691
Less: non-financial instrument components:		
Appropriations receivable	26,917	24,126
Other receivables	<u>130</u>	<u>67</u>
Total non-financial instrument components	27,047	24,193
Total financial assets as per financial instrument note	<u>507</u>	<u>498</u>

Note 16: Appropriations

Note 16A: Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2015

	<i>Appropriation Act</i>		<i>PGPA Act</i>	Total appropriation ³	<i>Appropriation applied in 2015 (current and prior years)</i>	<i>Variance⁴</i>	<i>Section 51 determinations³</i>
	<i>Annual Appropriation¹</i>	<i>AFM</i>	<i>Section 74</i>				
	\$'000	\$'000	\$'000				
Departmental							
Ordinary annual services	34,407	-	1,410	35,817	32,165	3,652	(289)
Total departmental	34,407	-	1,410	35,817	32,165	3,652	(289)

Notes:

1. Departmental appropriations do not lapse at financial year-end. The figure shown above does not reflect the \$289,000 reduction.
2. The Departmental appropriation in the Table above is inclusive of the Departmental Capital Budget appropriation in the Table below (Note 16B).
3. Appropriations were reduced by \$289,000 via a section 51 determination during 2014-15, however this reduction is not reflected in the total appropriation amount shown in the table above. The reduction is reflected in the Statement of Comprehensive Income, and in the Statement of Financial Position (Note 7A).
4. See Note 18B. The variance shown above excludes the section 51 determination reduction.

Note 16A: Annual Appropriations ('Recoverable GST exclusive') continued

Annual Appropriations for 2014

	<i>Appropriation Act</i>		<i>FMA Act</i>	Total appropriation ³	Appropriation applied in 2014 (current and prior years)	Variance
	Annual Appropriation ¹	Appropriations reduced				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental						
Ordinary annual services	38,233	(1,595)	972	37,610	36,720	890
Total departmental	38,233	(1,595)	972	37,610	36,720	890

Notes:

1. Departmental appropriations do not lapse at financial year-end. Appropriations totalling \$561,156 were been quarantined by the Department of Finance, but were not recognised as a formal reduction until 2014-15, and on this basis were not been reflected in the Statement of Comprehensive Income, in the Statement of Financial Position (Note 7A), in the table above, or in Table below (Note 16C).
2. The Departmental appropriation in the Table above is inclusive of the Departmental Capital Budget appropriation in the Table below (Note 16B).
3. Appropriations were formally reduced by \$1,595,000 determination during 2014-15. This reduction is reflected in the Statement of Comprehensive Income, and in the Statement of Financial Position (Note 7A).

Note 16B: Departmental Capital Budgets ('Recoverable GST exclusive')

	2015 Capital Budget Appropriations		Capital Budget Appropriations applied in 2015 (current and prior years)			Variance	
	<i>Appropriation Act</i>		Total Capital Budget Appropriations	Payments for non-financial assets ²	Total payments		
	Annual Capital Budget	\$'000					
Departmental							
Ordinary annual services							
Departmental Capital Budget ¹	855	855	328	328	527		

Notes:

1. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Note 16A: Annual Appropriations.
2. Payments made on non-financial assets include purchases of assets, expenditure on assets which has been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

Note 16B: Departmental Capital Budgets ('Recoverable GST exclusive') continued

	2014 Capital Budget Appropriations		Capital Budget Appropriations applied in 2014 (current and prior years)		Variance	
	<i>Appropriation Act</i>					
	Annual Capital Budget	Total Capital Budget Appropriations	Payments for non-financial assets ²	Total payments		
	\$'000	\$'000	\$'000	\$'000	\$'000	
Departmental						
Ordinary annual services						
Departmental Capital Budget ¹	279	279	87	87	192	

Notes:

1. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Note 16A: Annual Appropriations.
2. Payments made on non-financial assets include purchases of assets, expenditure on assets which has been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

Note 16C: Unspent Departmental Annual appropriations ('Recoverable GST exclusive')

Authority	2015	2014
	\$'000	\$'000
Appropriation Act (No.1) 2012-13	-	280
Appropriation Act (No.1) 2013-14	792	24,181
Appropriation Act (No.1) 2014-15	<u>27,231</u>	-
Total as at 30 June	<u>28,113</u>	<u>24,461</u>

Note 17: Reporting of Outcomes

Note 17A: Net Cost of Outcome Delivery

Departmental	Outcome 1	
	2015	2014
	\$'000	\$'000
Expenses	30,968	37,299
Own-source income	<u>906</u>	935
Net cost of outcome delivery	<u>30,062</u>	<u>36,364</u>

Note 18: Budgetary Reports and Explanations of Major Variances

The following tables provide a comparison of the original budget as presented in the 2014-15 Portfolio Budget Statements (PBS) to the 2014-15 final outcome as presented in accordance with Australian Accounting Standards for the Productivity Commission. The Budget is not audited.

Note 18A: Departmental Budgetary Reports

Statement of Comprehensive Income

for the period ended 30 June 2015

	Actual	Budget estimate	
	Original ¹	Variance ²	
	2015 \$'000	2015 \$'000	2015 \$'000
NET COST OF SERVICES			
Expenses			
Employee benefits	23,902	27,148	3,246
Suppliers	5,995	6,963	968
Depreciation and amortisation	1,054	1,050	(4)
Finance costs	17	17	—
Total Expenses	30,968	35,178	4,210
Own-Source Income			
Sale of goods and rendering of services	856	825	(31)
Resources received free of charge	50	40	(10)
Total own-source income	906	865	(41)
Net (cost of) / contribution by services	30,062	34,313	4,251
Revenue from Government	33,263	33,263	—
Surplus / (Deficit)	3,201	(1,050)	(4,251)
Total comprehensive income	3,201	(1,050)	(4,251)

¹ The entity's original budgeted financial statement that was first presented to parliament in respect of the reporting period from the entity's 2014-15 Portfolio Budget Statements.

² Between the actual and original budgeted amounts for 2015. Explanations of major variances are provided further below.

Statement of Financial Position

as at 30 June 2015

	Actual	Budget estimate	
	Original ¹	Variance ²	
	2015	2015	2015
	\$'000	\$'000	\$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	346	468	122
Trade and other receivables	<u>27,208</u>	<u>23,478</u>	<u>(3,730)</u>
Total financial assets	<u>27,554</u>	<u>23,946</u>	<u>(3,608)</u>
Non-Financial Assets			
Leasehold improvements	3,324	3,324	-
Property, plant and equipment	600	666	66
Intangibles	198	128	(70)
Other non-financial assets	<u>562</u>	<u>498</u>	<u>(64)</u>
Total non-financial assets	<u>4,684</u>	<u>4,616</u>	<u>(68)</u>
Total Assets	<u>32,238</u>	<u>28,562</u>	<u>(3,676)</u>
LIABILITIES			
Payables			
Suppliers	386	379	(7)
Other payables	<u>3,632</u>	<u>3,884</u>	<u>252</u>
Total payables	<u>4,018</u>	<u>4,263</u>	<u>245</u>
Provisions			
Employee provisions	10,979	11,813	834
Other provisions	<u>514</u>	<u>514</u>	<u>-</u>
Total provisions	<u>11,493</u>	<u>12,327</u>	<u>834</u>
Total Liabilities	<u>15,511</u>	<u>16,590</u>	<u>1,079</u>
Net Assets	<u>16,727</u>	<u>11,972</u>	<u>(4,755)</u>
EQUITY			
Contributed equity	3,569	3,569	-
Reserves	2,771	2,771	-
Retained surplus	<u>10,387</u>	<u>5,632</u>	<u>(4,755)</u>
Total Equity	<u>16,727</u>	<u>11,972</u>	<u>(4,755)</u>

¹ The entity's original budgeted financial statement that was first presented to parliament in respect of the reporting period from the entity's 2014-15 Portfolio Budget Statements.

² Between the actual and original budgeted amounts for 2015. Explanations of major variances are provided further below.

Statement of Changes in Equity

for the period ending 30 June 2015

	Retained earnings			Asset revaluation surplus			Contributed equity			Total equity		
	Actual	Budget estimate		Actual	Budget estimate		Actual	Budget estimate		Actual	Budget estimate	
	Original ¹	Variance ²		Original ¹	Variance ²		Original ¹	Variance ²		Original ¹	Variance ²	
	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance												
Balance carried forward from previous period	7,747	6,682	(1,065)	2,771	2,771	–	2,714	2,714	–	13,232	12,167	(1,065)
Comprehensive Income												
Surplus/(Deficit) for the period	3,201	(1,050)	(4,251)	–	–	–	–	–	–	3,201	(1,050)	(4,251)
Total comprehensive income	3,201	(1,050)	(4,251)	–	–	–	–	–	–	3,201	(1,050)	(4,251)
Transactions with owners												
Contributions by Owners												
Departmental capital budget	–	–	–	–	–	–	855	855	–	855	855	–
Reduction from prior years	–	–	–	–	–	–	(561)	–	561	(561)	–	561
Sub-total transactions with owners	–	–	–	–	–	–	294	855	561	294	855	561
Closing balance as at 30 June	10,948	5,632	(5,316)	2,771	2,771	–	3,008	3,569	561	16,727	11,972	(4,755)

¹ The entity's original budgeted financial statement that was first presented to parliament in respect of the reporting period from the entity's 2014-15 Portfolio Budget Statements.

² Between the actual and original budgeted amounts for 2015. Explanations of major variances are provided further below.

Cash Flow Statement

for the period ending 30 June 2015

	Actual	Budget estimate	
	Original ¹	Variance ²	
	2015 \$'000	2015 \$'000	2015 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations	<u>31,848</u>	<u>32,960</u>	1,112
Sales of goods and rendering of services	<u>1,023</u>	<u>825</u>	(198)
Net GST received	<u>609</u>	<u>-</u>	(609)
Total cash received	<u><u>33,480</u></u>	<u><u>33,785</u></u>	305
Cash used			
Employees	<u>24,831</u>	<u>27,148</u>	2,317
Suppliers	<u>7,228</u>	<u>7,212</u>	(16)
Section 74 receipts transferred to OPA	<u>1,410</u>	<u>-</u>	(1,410)
Total cash used	<u><u>33,469</u></u>	<u><u>34,360</u></u>	891
Net cash from (used by) operating activities	<u><u>11</u></u>	<u><u>(575)</u></u>	<u><u>(586)</u></u>
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment	<u>328</u>	<u>280</u>	(48)
Total cash used	<u><u>328</u></u>	<u><u>280</u></u>	<u><u>(48)</u></u>
Net cash (used by) investing activities	<u><u>(328)</u></u>	<u><u>(280)</u></u>	<u><u>48</u></u>
FINANCING ACTIVITIES			
Cash received			
Contributed equity	<u>328</u>	<u>855</u>	527
Total cash received	<u><u>328</u></u>	<u><u>855</u></u>	<u><u>527</u></u>
Net cash from financing activities	<u><u>328</u></u>	<u><u>855</u></u>	<u><u>527</u></u>
Net increase (decrease) in cash held	<u>11</u>	<u>-</u>	<u>(11)</u>
Cash and cash equivalents at the beginning of the reporting period	<u>335</u>	<u>468</u>	133
Cash and cash equivalents at the end of the reporting period	<u><u>346</u></u>	<u><u>468</u></u>	<u><u>122</u></u>

¹ The entity's original budgeted financial statement that was first presented to parliament in respect of the reporting period from the entity's 2014-15 Portfolio Budget Statements.

² Between the actual and original budgeted amounts for 2015. Explanations of major variances are provided further below.

Note 18B: Departmental Major Budget Variances for 2015

Statement of Comprehensive Income

Employee benefits were \$3.246 million below the Original Budget mainly due to lower than anticipated staff levels and, to a lesser extent, lower than forecast wage growth. The lower staff levels are predominantly due to: higher than anticipated staff turnover; the time taken to subsequently fill vacant positions; unanticipated secondments of staff to other agencies; and higher than anticipated use of leave without pay or leave for which provision had been made in prior years. Wages growth has been affected by continuing enterprise bargaining negotiations.

Supplier costs were \$0.968 million below the Original Budget mainly due to lower than anticipated inquiry and other project activity. The nature, scope and timing of public inquiries, which are commissioned by Government, are not always known when the Original Budget estimates are prepared, and those factors have had a bearing on cost outcomes. In addition, the mix of activities influences costs, with inquiry activity typically being higher cost.

Statement of Financial Position

Financial Assets were \$3.608 million higher than the Original Budget mainly because there was a lower than anticipated need to draw on appropriations receivable (Revenue from Government) given the lower expenses referred to above.

Liabilities were \$1.079 million lower than the Original Budget mainly because of the impact of higher than anticipated use in the current year of employee provisions made in previous years, and the effect on employee provisions of lower than forecast future wage growth.

Statement of Changes in Equity

The variation in retained earnings of \$4.251 million reflects the operating surplus made in 2014-15 due to the lower Employee Benefits and Supplier expenses explained above.

Cash Flow Statement

Cash used in respect of Employees was \$2.317 million lower than the Original Budget due to the lower than anticipated Employee Benefits expenses referred to above.

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