
2 Review of Commission activities and performance

Some highlights from 2011-12

- published reports on a range of important policy topics, including the schools and early childhood development workforces, the economic regulation of airports, aged care, disability care and support, urban water, Australia's retail industry, the economic impacts and benefits of COAG's reform agenda, and export credit arrangements
- requested to undertake a joint study (with the New Zealand Productivity Commission) on furthering economic relations between the two countries
- completed further stages of the review of regulatory burdens on business and the benchmarking study on business regulation
- governments accepted many of the Commission's findings and recommendations on aged care, disability care and support, drought assistance and airport regulation
- released the seventeenth edition of the annual Report on Government Services, the fifth edition of the Overcoming Indigenous Disadvantage report, and a range of National Agreement performance reports
- completed a variety of supporting research, including papers on productivity in the electricity, gas and water industries, multifactor productivity growth cycles and Indigenous labour market outcomes

Some areas of focus for 2012-13

- complete current inquiries and government-commissioned research on climate change adaptation, default superannuation funds, electricity network regulation, the benchmarking of regulatory impact assessments, and Australia's patent system
- host visits by partner organisations in other APEC economies to share structural reform experiences and policy analysis approaches
- provide ongoing secretariat assistance to the Steering Committee for the Review of Government Services, including further implementation of recommendations from the COAG reviews of the Report on Government Services
- undertake industry reviews, associated research and other functions as part of the Government's Clean Energy Future Plan
- supporting research on topics including structural change and productivity
- host conferences on productivity perspectives (with the ABS) and Indigenous policy evaluation

Overview

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

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

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

The outcome objective designated for the Productivity Commission is:

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

The Commission, in pursuing this objective, is active in four broad work streams:

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

The breadth and volume of the Commission's work are indicated by the reports published in 2011-12 (box 2.1). They included government-commissioned inquiries and studies on export credit arrangements, the retail industry, COAG's reform agenda, disability care and support, airport regulation, urban water, the education and training workforce, local government and regulation reform.

Box 2.1 **Commission publications in 2011-12**

Public inquiries (draft reports)

Australia's Export Credit Arrangements	Economic Structure and Performance of the Australian Retail Industry
Economic Regulation of Airport Services	

Public inquiries (final reports)

Economic Structure and Performance of the Australian Retail Industry	Economic Regulation of Airport Services
Australia's Urban Water Sector	Disability Care and Support

Government-commissioned research studies (draft reports)

Impacts and Benefits of COAG Reforms: Business Regulation, VET and Youth Transitions	Business Regulation Benchmarking: Role of Local Government
Annual Review of regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	Education and Training Workforce: Schools

Government-commissioned research studies (final reports)

Impacts and Benefits of COAG Reforms: Business Regulation, VET and Youth Transitions	Education and Training Workforce: Schools
Annual Review of regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	Education and Training Workforce: Early Childhood Development

Chairman's published speeches

Australia's Mining Boom: What's the Problem?	Economics, Economists and Public Policy in Australia
Independent Policy Advice and the Productivity Commission	Industry Assistance in a 'Patchwork Economy'

Annual report suite of publications

Annual Report 2010-11	Trade & Assistance Review 2010-11
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Conference/workshop proceedings

A 'Sustainable' Population? — Key Policy Issues

2011 Richard Snape Lecture

The Political Economy of Reform in Mexico (Dr Roberto Newell)

(continued next page)

Box 2.1 (continued)

Performance reporting

Report on Government Services 2012: education, justice, emergency management, health, community services and housing

Report on Government Services 2012: Indigenous compendium

National Agreement performance information 2010-11: National Healthcare Agreement

National Agreement performance information 2010-11: National Affordable Housing Agreement

National Agreement performance information 2010-11: National Disability Agreement

National Agreement performance information 2010-11: National Indigenous Reform Agreement

National Agreement performance information 2011: National Agreement for Skills and Workforce Development

National Agreement performance information 2011: National Education Agreement

National Partnership Agreement on Essential Vaccines: 1 April 2011–31 March 2012 performance report

2010 Indigenous Expenditure Report Supplement

Overcoming Indigenous Disadvantage: Key Indicators 2011

Competitive neutrality reports

NBN Co.

PETNET Australia

Staff working papers

Multifactor Productivity Growth Cycles at the Industry Level

Influences on Indigenous Labour Market Outcomes

Productivity in Electricity, Gas and Water: Measurement and Interpretation

The diversity of topics in the Commission's work program is also apparent in the range of its ongoing work. This includes inquiries and studies on electricity network regulation, climate change, default superannuation funds, the economic relationship between Australia and New Zealand, and aspects of Australia's patent system.

The Commission continues to assist all Australian governments and COAG through a mix of standing research responsibilities and specific projects. In the current year, it continued to provide secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision.

Specific projects undertaken to assist policy development across jurisdictions in 2011-12 included a study on the next stage of COAG's regulation and competition reform agenda, and a benchmarking study on the regulatory role of local government to assist the work of the COAG Business Regulation and Competition Working Group (BRCWG). In February 2012, the Australian Government, with the

agreement of the BRCWG, also requested that the Commission undertake a benchmarking study into regulatory impact analysis (RIA) processes. In undertaking this study, the Commission has been requested to benchmark the efficiency and quality of Commonwealth, state and territory, and COAG RIA processes.

Year in review

The Productivity Commission's role in informing public policy development and community understanding on key issues influencing Australia's productivity and living standards is pursued through four main work streams. The principal developments in these activities during 2011-12 are outlined below.

Public inquiries and commissioned studies

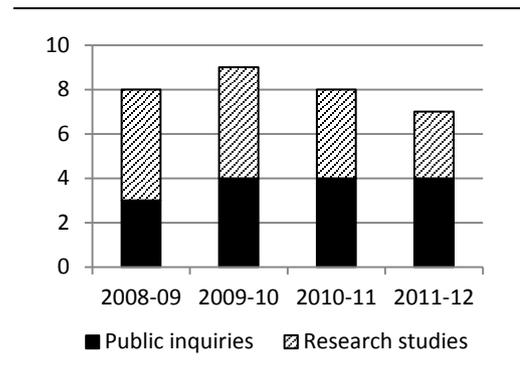
The Commission had nine public inquiries and eight commissioned research studies underway at some time during 2011-12. In addition to completing seven references from the previous year, it received ten new projects on a broad range of topics (figure 2.1 and table B.3).

The Commission completed four inquiries commenced in the previous financial year: on disability care and support, urban water, the retail industry and the economic regulation of airport services.

Five new inquiries commenced in 2011-12.

- In September 2011, the Commission was asked to consider arrangements for the provision of export credit through the Export Finance and Insurance Corporation (EFIC). In undertaking the inquiry, the Commission was asked to review government involvement in the provision of export credit and assess current arrangements against the requirements of the *Export Finance and Insurance Corporation Act 1991*. The inquiry was also asked to: review EFIC's exemption from competitive neutrality legislation, its funding, pricing and service arrangements, and assess their impact on private sector provision of financial products and services which support Australian export trade; and to assess the interactions between EFIC and other government programs and consider alternatives that would achieve EFIC's objectives.

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



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- An inquiry into barriers to effective climate change adaptation also commenced in September 2011. The twelve month inquiry covers regulatory and policy barriers that inhibit the ability of the community to adapt effectively to climate change. In undertaking the inquiry, the Commission has been asked to identify any specific barriers to effective adaptation, and high priority options for addressing those barriers. In doing so it is required to examine the costs and benefits of the options to address those barriers where it is feasible to do so, including a 'no change' (maintaining the status quo) option; and assess the role of markets (including insurance markets) and non-market mechanisms in facilitating adaptation, and the appropriateness of government intervention.
 - The Commission was asked to conduct a fifteen month inquiry into electricity networks in January 2012. The purpose of the inquiry is to examine if efficient levels of transmission interconnectors are being delivered, to inform the Australian Government about whether the regulatory regime is delivering efficient levels of interconnection to support the market. In addition, a second stream of the inquiry will consider whether there are any practical or empirical constraints on the use of benchmarking of network businesses and provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO).
 - In February 2012, the Assistant Treasurer asked the Commission to undertake a nine month inquiry into default superannuation funds in modern awards. The purpose of the inquiry is to design transparent and objective criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards.
 - In June 2012 a nine month inquiry into the compulsory licensing provisions in the *Patents Act 1990* commenced. The main purpose of the inquiry is to assess, advise and recommend on the impacts and mechanisms of compulsory licensing invoked by the Patent Act's public interest and anti-competitive safeguard.

Research studies commissioned by the Government were a further significant component of the Commission's workload in 2011-12. During the year the Commission finalised three research studies commenced in the previous year:

- a further stage of its annual regulatory burdens studies, on identifying and evaluating regulatory reforms
- the second and third in a series of studies on the education and training workforce, looking at the workforces in early childhood development and schools.

It also received requests to undertake new research studies on the role of local government as a regulator; the benchmarking of regulatory impact assessments; and

economic relations between Australia and New Zealand. (The latter project is being jointly conducted with the New Zealand Productivity Commission, which was created in April 2011.)

The Commission also received requests for, and completed, two research studies on COAG's reform agenda.

Further information on public inquiries and commissioned research studies undertaken during 2011-12 and government responses to the Commission's reports is provided in appendices B and D.

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

Report on Government Services

The *Report on Government Services 2012* was the seventeenth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning early childhood, education and training, health, justice, community services, emergency management, housing and homelessness. The services covered in the 2012 Report collectively account for \$165 billion of government recurrent expenditure, equivalent to over 12 per cent of gross domestic product. A separate *Indigenous Compendium* was also published, providing a more accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review has a focus on improved reporting over time. The 2012 Report included new indicators for mental health management, aged care services, and services for people with disability, and improved reporting aspects of children's services, school education, vocational education and training, police services, emergency management, public hospitals, primary and community health, mental health management, aged care services, services for people with disability,

protection and support services and housing. There was also some streamlining of the Report, including the consolidation of many indicators with similar characteristics as separate measures under new high level indicators, and removal of indicators that are either no longer policy relevant or where associated data are not expected to become available.

At its meeting on 7 December 2009, COAG agreed to the recommendations of a review of the RoGS by a Senior Officials and Heads of Treasuries Working Group. The review examined the ongoing usefulness of the RoGS to its government, non-government and community stakeholders. Most developments arising from the review have been implemented and ongoing developments arising from the Review are now included in the annual work program.

Overcoming Indigenous Disadvantage: Key Indicators

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

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

Five editions of the report have been released, in November 2003, July 2005, June 2007, July 2009 and August 2011. The then Prime Minister acknowledged the importance of the report when issuing revised terms of reference in March 2009:

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

The latest edition was released in August 2011. It showed that many Indigenous people have shared in Australia's economic prosperity, with increases in incomes and home ownership. There have also been reductions in avoidable mortality and improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

National Agreement reporting

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

COAG has requested that the Steering Committee provide the CRC with performance information needed to undertake its assessment, analytical and reporting responsibilities. The IGA states that the Steering Committee's role is 'overall responsibility for collating the necessary performance data' for National Agreements. The IGA further specifies that 'the Steering Committee will comment on the quality of the performance indicator data using quality statements prepared by collection agencies'. The Steering Committee has also collated data for selected National Partnership Agreements to assist the CRC.

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

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

The fourth cycle of the first tranche of reporting, delivered to the CRC on 30 June 2012, included:

- specifications for all performance indicators in the National Education Agreement and the National Agreement for Skills and Workforce Development
- specifications for education and training performance indicators in the National Indigenous Reform Agreement
- data for the 2011 calendar year (or most recent reporting year available).

The second cycle of the second tranche of reporting, delivered to the CRC on 23 December 2010, included:

- specifications for all performance indicators in the National Healthcare Agreement, National Affordable Housing Agreement, National Disability Agreement and the National Indigenous Reform Agreement

-
- data for the reporting period of the 2010-11 financial year (or most recent reporting year available).

Data collation for selected NPs draws on the specifications of those agreements and the CRC's associated performance matrices. The two Steering Committee reports covered two NPs, Essential Vaccines and Youth Attainment and Transitions.

Indigenous Expenditure Report

In 2007, COAG agreed to the reporting of Indigenous expenditure, and the Productivity Commission assumed secretariat responsibilities from November 2008. The Indigenous Expenditure Report contributes to governments' understanding of the levels and patterns of expenditure on services that relate to Indigenous Australians, and provides policy makers with an additional tool for targeting policies to Close the Gap in Indigenous disadvantage.

The inaugural Indigenous Expenditure Report (released on 28 February 2011) provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on Indigenous specific services as well as the estimated Indigenous share of mainstream services. A supplement to the 2010 Indigenous Expenditure Report (released on 15 September 2011) complemented 2010 Report by providing estimates of Australian Government expenditure by state and territory. This enabled the estimation of the total government resources committed in each state and territory.

The 2012 Indigenous Expenditure Report, which is the second in the series, was released on 4 September 2012. It provides estimates of expenditure on services provided to Aboriginal and Torres Strait Islander people by the Australian Government, and State and Territory governments. Estimates are provided for each level of government, Australia as a whole, and by state and territory geographical basis, for 2008-09 and 2010-11.

The estimates show that, on average, expenditure per head of population was \$44 128 for Indigenous Australians, compared with \$19 589 for other Australians (a ratio of 2.25 to 1). The \$24 538 per person difference reflected the combined effects of:

- *greater intensity of service use (\$16 109 or 66 per cent)* — Indigenous Australians use more services per capita because of greater need, and because of population characteristics such as the younger age profile of the Indigenous population

-
- *additional cost of providing services (\$8429 or 34 per cent)* — it can cost more to provide services to Indigenous Australians if mainstream services are more expensive to provide (for example, because of location), or if Indigenous Australians receive targeted services (for example, Indigenous liaison officers in hospitals) in addition to mainstream services.

The next Indigenous Expenditure Report is planned for release in 2014.

Competitive neutrality complaints activities

The Productivity Commission administers the Australian Government's competitive neutrality complaints mechanism. Competitive neutrality 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 four formal written complaints in 2011-12. Details of the complaints and actions taken by the AGCNCO are detailed in appendix C.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2011-12, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

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

Supporting research activities and annual reporting

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

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

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

In 2011-12 the Commission's supporting research program covered a number of important economic and social topics. It included work on productivity growth cycles, productivity performance in electricity, gas and water, and Indigenous labour market outcomes (box 2.1). Several papers connected to the Commission's statutory annual reporting requirements were also published.

Further information on the Commission's supporting research activities and publications in 2011-12 is provided in appendix E. This also details the 75 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research and performance reporting work (table E.1).

The Commission also briefed 25 international delegations and visitors during 2011-12, with a focus on the Commission's role and activities and related policy matters (table E.2). In 2012-13, the Commission will continue to strengthen linkages with policy agencies in other countries, with a focus on APEC member economies.

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 in advance.

Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. During the course of its public inquiry activities in 2011-12, the Commission met with more than 150 organisations or groups, held 16 days of public hearings, and received around 560 submissions.

The Commission has adapted its processes to suit the variety of research studies commissioned by the Government. These studies require less formal public interaction than inquiries, but the Commission nevertheless provides opportunities for participants or experts to comment on its analytic frameworks and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 590 submissions to these studies in 2011-12, with

many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

The nature of the Commission's consultative and transparent processes in the past year is illustrated in box 2.2. These included some innovations to ensure that the views and experiences of a diverse range of stakeholders could be taken into account.

Box 2.2 Participative and transparent processes: two examples

The Commission seeks to maximise public participation in, and transparency of, its inquiries and commissioned research studies. For example:

- In conducting its inquiry into Australia's retail industry, the Commission advertised the inquiry widely in print and electronic media. It visited a wide range of external stakeholders, attended a workshop organised by the Department of Customs, organised a Roundtable prior to the release of the draft report, and held public hearings following the release of the draft report. The Commission's roundtable brought together representatives from Customs, express couriers and Australia Post, and was valuable in clarifying issues. The Commission also consulted with overseas experts and with postal services such as the Royal Mail in the UK. Further consultations were also held with investment analysts and financial institutions with expertise in the retail sector. Public hearings were attended by unions, business representatives, government officials and consumers. They were also invaluable in clarifying issues.
- In undertaking its study on the role of local government as a regulator, the Commission liaised with an advisory panel, consisting of representatives from the Australian Local Government Association and central departments in all states and territories and the Commonwealth government. Extensive surveys were undertaken of state and local governments which also raised awareness of the study generally and to core issues in the terms of reference more specifically. To consult widely with local governments at the grass roots, the Commission visited all of the local government associations in all jurisdictions. In addition, over the course of the study, presentations were made at conferences directed at local government issues. The Commission also visited many of the state and territory peak industry bodies and some select individual businesses in all jurisdictions. Based on the suggestion in the terms of reference that the Commission could draw on good overseas regulatory practices by local government, the Commission also visited key agencies in the United Kingdom and New Zealand.

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 utilises specialist external expertise.

The Commission held a joint roundtable with the Forum of Federations on Benchmarking in Federal Systems in Melbourne on 19-20 December 2010. Participants included government officials, academics, consultants and representatives of non-government organisations. The Roundtable provided the opportunity to compare Australian approaches to ‘benchmarking’ with those followed in the United States, Canada, the United Kingdom and Germany, as well as at the European Union level. Papers were initially made available on the Commission’s website and the proceedings were subsequently published.

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

The Commission’s Visiting Researcher Program seeks to attract established researchers with an outstanding research record in areas related to its priority research themes and activities. Visiting Researchers contribute to both the work and intellectual life of the Commission. In 2011-12 Dean Parham, Dr Larry Cook and Richard Clarke were Visiting Researchers at the Commission.

Research collaboration

The Commission continued to participate in collaborative research projects with academic institutions and other organisations in 2011-12. The projects involved:

- the University of Queensland, Australian Bureau of Statistics, the Department of Planning and Commercial Development (Victoria), and several government departments in Queensland to examine the utilisation of social science research in policy development and program review
- the University of New South Wales and the University of British Columbia (Vancouver) on tackling problems in productivity measurement in infrastructure, services and research and development (other partner organisations were the ABS and the Reserve Bank of Australia).

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

board, providing direction to the project along with 24 other international institutions.

Research networks and linkages

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

- The Commission's Chairman, Gary Banks, chairs the Regulatory Policy Committee of the OECD. He is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University. He is a National Fellow of the Institute of Public Administration Australia (IPAA), a Fellow of Monash University and in 2012 was made a Public Policy Fellow at ANU. In 2010 he was elected a Fellow of the Academy of Social Sciences in Australia (ASSA). He is on the judging panel for the BHP Billiton/Reconciliation Australia 'Indigenous Governance Awards'. He also is a member of the speaker faculty for the Melbourne Business School's Public Policy Series.
- A number of Commissioners are also members of various advisory boards and committees, including university and non-profit organisations. For example, Robert Fitzgerald serves on the Queensland University of Technology's Centre for Philanthropy and Nonprofit Studies Advisory Board, and the Australian Catholic University Community Engagement Advisory Committee. Dr Wendy Craik serves on the Boards of the WorldFish Center and the Australian Rural Leadership Foundation. Dr Warren Mundy is currently the Deputy Chair of Airservices Australia. He is a member of the Aviation Industry Advisory Committee of the University of New South Wales and a Fellow of the Royal Aeronautical Society of London and the Australian Institute of Company Directors. Alison McClelland is a fellow of the Institute of Public Administration Australia (IPAA) (Victoria), a member of IPPA Victoria's Program Committee, a Charter Member of the Brotherhood of St Laurence and an Adjunct Professor at La Trobe University.
- The Commission's Chairman and senior staff have also participated in the East Asian Bureau of Economics Research's 'Public Sector Linkages Project'. This project, involving representatives from leading policy research institutes throughout East Asia, held a series of international meetings concerned with the development of better institutional foundations for structural reform in countries in the region.

- Staff members are also involved in a range of other research networking activities. For example, members of staff have recently 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. Members of staff have also been recently involved in APEC capacity building activities that assist developing economies in furthering their structural reform plans.
- The Commission has also received funding from the Australian Government to undertake a visit program for government officials in APEC economies across 2012-13, initially with agencies in Malaysia, Vietnam, Indonesia and China.

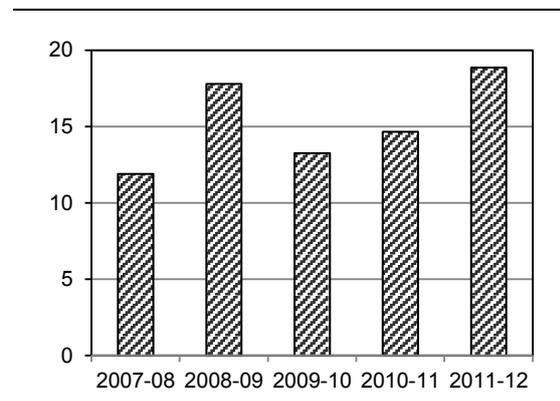
Informing and communicating via the internet

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

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

The Commission’s website received over 18 million file requests from external users in 2011-12 (figure 2.2).

Figure 2.2 **Website hits**
Million



There were more than 272 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2011-12. The projects of most interest were the inquiries on aged care (60 027 requests), disability support (41 404 requests) and Australia's retail industry (28 931 requests), and the research studies on the early childhood development workforce (18 146 requests) and COAG reforms (11 297 requests). Other heavily accessed web pages were for the 2011 and 2012 *Report on Government Services* (25 333 and 22 603 requests, respectively) and the 2011 *Overcoming Indigenous Disadvantage: Key Indicators* report (25 900 requests). Speeches by the Commission's Chairman attracted more than 55 000 requests over the year.

Even after an inquiry or research study is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 2009 inquiry on Australia's gambling industries received over 38 000 requests; and the Commission's 2010 study of the contribution of the not-for-profit sector received over 26 000 requests.

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. The results of past surveys were reported in previous annual reports and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises and the quality and usefulness of its supporting research program. The rolling program of surveys complements the feedback received through comments and submissions on draft reports, position papers, workshop papers and the views expressed during public hearings and consultations on its research program.

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

In addition to its rolling program of surveys, the Commission monitors less formal sources of feedback on the public record. Views expressed about the value of the Commission's processes and the quality of its outputs can reflect agreement with, or opposition to, specific pieces of Commission analysis or advice. Nevertheless, the

examples in box 2.3 illustrate the breadth of support for the Commission's contribution.

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

The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and the conduct of hearings. Around 70 participants provided feedback through this mechanism in 2011-12, most of which was positive. Feedback is in turn forwarded to relevant authors, inquiry teams and management for consideration and action, where required.

Policy and wider impacts

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

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

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

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

During the year the Government asked the Commission to undertake inquiries and studies on a range of topics, including climate change adaptation, default superannuation funds, electricity network regulation, the benchmarking of regulatory impact assessments, and Australia's patent system.

The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, described the Commission in December 2011 as 'Australia's leading economic research body.' (Macklin 2011)

The Governor of the Reserve Bank, Glenn Stevens, discussed productivity-enhancing economic reforms in June 2012 and stated:

I think the best answer is we have a body called the Productivity Commission... They've got a long list of things to do. My answer to what we can do about productivity is go get the list and do them. They're not popular and they are very difficult and they are politically hard in many instances, but these people are the experts. (as quoted in Greber, Daley and Massola 2012)

During the year COAG identified several further areas where Commission projects would assist it with its work. These included a request to provide high level advice on the likely costs and benefits of further COAG reforms; and to undertake further possible work on construction costs and/or major project development assessment processes.

In November 2011 an OECD Economic Review of Germany called for a body similar to the Commission to be established, stating:

In order to focus the debate and to identify remaining hurdles to higher productivity, an advisory body tasked with reviewing regulation and other issues – similar to the Australian Productivity Commission – should be established. (OECD 2011e, p. 20)

The Federal Opposition proposed a number of tasks for the Commission during the year, including that it conduct regular audits of Departmental attempts to reduce red tape; develop a set of guidelines for future automotive industry assistance; inquire into foreign ownership of agricultural land and agribusinesses; be asked to conduct a comprehensive review of the *Fair Work Act*; and undertake an inquiry to consider ways that high quality child care can be delivered more flexibly to suit the individual circumstances of families.

A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including the performance of national cities; carbon price assistance for industries; the costs and benefits of major government expenditure proposals; tax concessions for the finance industry; the Medicare system; an extension of unit pricing across the retail sector; options to increase the private funding of high-priority infrastructure projects; drug laws; and policy options to enhance labour mobility.

The Aged Care Industry Council welcomed the release of the Commission's final inquiry report on aged care, and stated that:

... the Productivity Commission has provided a timely blueprint for establishing an affordable and sustainable quality aged care system for Australia. (ACIC 2012)

Details are provided in appendix B.

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

Influence on government policy-making

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

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

- The Australian Government released an interim response to the Commission's *Education and Training Workforce: Early Childhood Development* report on 1 December 2011 (Australian Government 2011g). The Government welcomed the Commission's report and stated that it would consider all of its findings and recommendations and provide a final response in mid 2012.
- On 9 December 2011 the Australian Government released its response to the Commission's report on the Australian retail industry (Conroy, O'Connor, Sherry and Shorten 2011). The Government agreed, or agreed in principle, with eight recommendations and noted four recommendations (in noting two of the recommendations, the Government recognised that some matters, such as those dealing with planning and zoning, trading hours and tenancy, were state issues). It also "noted" recommendations on Workplace Relations Regulation and on the gathering data about online retailing. The Government did not agree with one recommendation dealing with the issue of restrictions on competition created by the *Copyright Act*. It preferred an alternative process to that recommended by the Commission to further investigate such concerns (by referring it to the Australian Law Reform Commission). The Government welcomed the staged approach recommended by the Commission to the issue of the appropriate level of the Low Value Threshold. This involved establishing a Taskforce to investigate improved approaches to processing low value parcels and then reassessing the extent to which the Threshold could be reduced.
- On 30 March 2012 the Minister for Infrastructure and Transport, the Hon Anthony Albanese, and the Assistant Treasurer and Minister Assisting for Deregulation, the Hon David Bradbury, released a response to the Commission's report on airport regulation (Albanese and Bradbury 2012). In responding to the

report, the Government broadly accepted the Commission's recommendations, but did not fully implement its proposed approach. The Government agreed in principle with the Commission's recommendations to continue monitoring and improve the operation of the regime through enhancements to the monitoring approach, namely:

- publication by the Australian Competition and Consumer Commission (ACCC) of a draft monitoring report
- a 'show cause' process that would see the ACCC, in the published draft airport monitoring report, having the option to nominate an airport to show cause why its conduct should not be subject to a price inquiry. Where the ACCC is not satisfied with an airport's response, the ACCC should make a recommendation to the relevant Minister that a price inquiry be held under Part VIIA of the Competition and Consumer Act 2010 (CCA)
- a review of the objective criteria for quality of service monitoring by June 2013
- publication of airports' prices, terms and conditions for transport operators' access to airports.

However, the Government also noted that, in its view, since the ACCC is an independent statutory authority, it is the responsibility of the ACCC to give effect to a number of the Commission's proposed enhancements to the monitoring regime as it sees fit.

The Government response provided agreement to the Commission's recommendations on landside access to airports.

- On 27 April 2012, the Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced a new national framework for drought management and preparedness (Ludwig 2012). As part of these reforms, and in line with recommendations in the Commission's 2009 report on government drought support, Exceptional Circumstances Interest Rate Subsidies concluded on 30 June 2012.
- On 23 May 2012, the Attorney General, the Hon. Nicola Roxon, introduced the *Legislative Instruments Amendment (Sunsetting Measures) Bill 2012* into Parliament (Roxon 2012). The Bill is consistent with a recommendation in the Commission's 2011 report *Identifying and Evaluating Regulation Reforms* that more flexibility be introduced into the Legislative Instruments Act to enable thematic reviews of related instruments. It also provides for greater smoothing of dates when older instruments must sunset, which is also consistent with the

Commission's report. In introducing the Bill into Parliament, the Attorney General stated:

The Productivity Commission, in its 2011 report *Identifying and Evaluating Regulation Reforms*, expressed concern about the mass expiry of instruments from 2015. They identified an increased risk that instruments will be remade without adequate review and without proper consultation with business and other stakeholders. The Commission noted that the sheer quantity of instruments required to be remade by government increases the risk that business and other stakeholders will not have sufficient time to make a meaningful contribution to any review.

Consistent with the recommendations of the Productivity Commission, the purpose of this bill is to smooth these sunseting peaks and to encourage high-quality consultation before regulations and legislative instruments are remade. It is also intended to ensure the information on the Federal Register of Legislative Instruments is current.

- The Australian Government released its *Living Longer. Living Better.* aged care reform package, which included a response to the Commission's report on aged care, in May 2012 (Australian Government 2012b). A number of recommendations from the Commission's report were supported, and adopted in the *Living Longer. Living Better* reforms. These included:
 - the establishment of an Aged Care Reform Council
 - that no deductions will be permitted from the bonds paid for residential care accommodation
 - new 'intermediate level' community care packages
 - the establishment of an initial care Gateway (but not accompanied by a move to an aged care entitlement as the Commission had recommended)
 - a review of the reforms after five years
 - the establishment of an aged care data clearing house.

Recommendations on respite care, carer support arrangements, sub-acute health services and palliative care were also supported. The government also supported recommendations to separate the policy settings for the major cost components of aged care; and that a life-time stop-loss provision for care costs be introduced.

The Government did not agree with a number of the Commission's recommendations, including those on establishing an Aged Care Home Credit scheme, establishing an Aged Pensioners Savings Account and establishing an independent regulatory agency. While the government announced a comprehensive (income and asset) means test for care contributions in residential care only (rather than in all settings as recommended by the Commission), the principal residence has been excluded from the means test for

care (a measure that had been recommended by the Commission to improve the long-term fiscal sustainability of the aged care system).

- The Australian Government released a final response to the Commission's 2011 report on rural research and development corporations in July 2012 (Australian Government 2012a). The Government agreed or agreed in principle to thirteen of the Commission's recommendations. These included recommendations on public funding principles, industry requests for marketing, evaluations and performance reviews, specific maximum levy rates, government matching funding, annual monitoring and reporting, and government representation on Research and Development Corporation (RDC) Boards. The Government did not agree with four of the Commission's recommendations, including those on halving the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap, and on the possible establishment of a new RDC, Rural Research Australia.
- On 25 July 2012, COAG noted progress in establishing the first stage of a National Disability Insurance Scheme (NDIS) from July 2013, drawing on the Commission's August 2011 report on *Disability Care and Support*. COAG stated that the Commonwealth has reached in-principle agreement with South Australia, Tasmania and the Australian Capital Territory for a launch to commence from July 2013 (COAG 2012). COAG also noted that it:

... welcomed a report from the Select Council on Disability Reform on progress with establishing an NDIS... As part of its report, the Select Council has proposed an approach to defining eligibility and reasonable and necessary support under an NDIS, building on the work of the Productivity Commission.

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

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

Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2011-12 sittings of the *Federal Parliament*:

- 103 Members and 53 Senators referred to 79 different Commission reports or inquiries, or to the Commission's role in policy processes
- in over three-quarters of the mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 1 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on emissions reduction policies and carbon pricing, disability care and support and aged care.

In addition, there were 87 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2011-12. The Commission was mentioned in the proceedings of 26 different committees, most prominently in proceedings of the Senate Standing Committee on Economics; the Senate Standing Committees on Rural Affairs and Transport; and the Joint Select Committee on Australia's Clean Energy Future Legislation. The most frequent mentions were to the reports on aged care, disability care and support and wheat export marketing.

Eleven parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports during the year. The 18 recent parliamentary committee reports listed in table B.1 referred to 16 different Commission outputs.

Research material provided to parliamentarians during 2011-12 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 17 different Commission outputs (table B.2). These included eight inquiry and other commissioned research reports and several research papers. Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

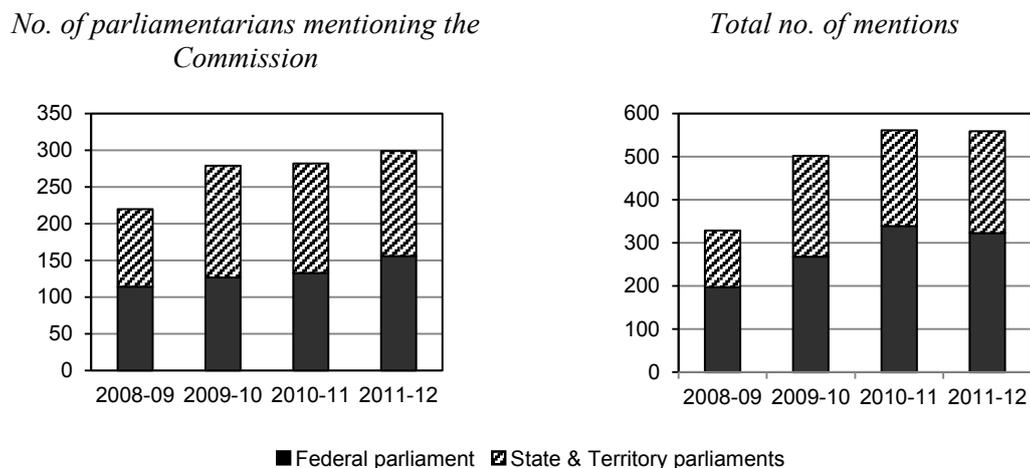
Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *state and territory parliamentarians*. During the 2011-12 sittings of the eight state and territory parliaments:

- 143 members referred to 42 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes
- in 77 per cent of the 236 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, while less than 1 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 disability care and support and gambling also featuring prominently.

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

Figure 2.3 Mentions of the Commission in Australian parliaments, 2008-09 to 2011-12



Other indicators of policy impact

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

- use of Commission analysis during the year by the Prime Minister, Treasurer, Assistant Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers, including use of Commission reports on gambling, disability care and support, aged care, trade and assistance and climate change
- the widespread use being made of the Report on Government Services by central and line government agencies, state Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
- the use made by the Commonwealth Treasury, COAG, state governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW and others of a diverse range of Commission supporting 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 E.1). As part of a rolling program of briefings for state and territory governments on the Commission's work, presentations and visits were made to New South Wales, Queensland, Western Australia and Victoria, and visits to other jurisdictions are scheduled throughout 2012-13. The Commission also responded to requests for briefings to visiting officials and delegations from New Zealand, Iraq, China, the Netherlands, Japan, Indonesia, Mexico, the Philippines, Singapore, India, the OECD and the WTO (table E.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2011-12, 61 editorials in 11 major metropolitan newspapers drew on the findings or recommendations in 13 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on the retail industry, aged care, gambling, disability care and support, international carbon policies and COAG reforms featured prominently.

The Commission rated an average of 280 mentions a month in electronic media and an average of 381 mentions a month in print media in 2011-12. The Commission's inquiries into disability and retail received the most coverage. Indicators of the influence of Commission outputs during the year — its inquiry, performance reporting, competitive neutrality work and supporting research — are discussed more fully in appendix B.

Associated reporting

Management and accountability information for 2011-12 is reported in appendix A. The audited financial statements for the Commission are contained in appendix G.

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

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

- *Productivity Monitor 2011-12*, which will be published in early 2013 and will include reporting on recent trends in productivity performance.
- *Trade & Assistance Review 2011-12*, which will report on trade policy and assistance developments and contain the Commission's latest estimates of assistance to Australian industry.