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**Productivity Commission**

Annual Report  
2013-14

Productivity Commission  
Annual Report Series



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### The Productivity Commission

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

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

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



9 October 2014

The Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2013-14. 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

Angela MacRae  
Commissioner

Michael Woods  
Deputy Chair

Alison McClelland  
Commissioner

Karen Chester  
Commissioner

Warren Mundy  
Commissioner

Jonathan Coppel  
Commissioner

Patricia Scott  
Commissioner

Wendy Craik  
Commissioner

Philip Weickhardt  
Commissioner



## Chairman and Commissioners



Jonathan Coppel, Angela MacRae & Warren Mundy



Philip Weickhardt



Karen Chester, Peter Harris (Chairman) & Patricia Scott



Alison McClland



Mike Woods (Deputy Chairman) & Wendy Craik

## Acknowledgments

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

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# Foreword

2013-14 has been an unusual year.

In an intense period between October and May, inquiries were commenced and completed into:

- Infrastructure Costs and Finance;
- Motor Vehicles; and
- Tasmanian Shipping and Freight.

In the same period, studies and inquiries referred to us by the previous Government were completed into:

- SPC Ardmona's call for emergency tariff assistance;
- Labour Mobility;
- the Access Regime in the Competition and Consumer Act;
- Major Project Assessments; and
- Regulator Engagement with Small Business.

And we released our first flagship research paper, on An Ageing Australia.

Moreover, two major inquiries continued throughout that period:

- Access to Justice; and
- Early Education and Child Care.

And another commenced (on National Disaster Funding Arrangements).

At the same time, the Commission reduced its staff level by around 10 per cent and reduced its expenditure on a range of administrative costs and sponsorship of economic forums.

However, the rate of new work being referred to us has decreased since May. We are consequently now making new research tasks the order of the day. The 2014 flagship research project on public housing policy will accordingly be supplemented by additional similar projects, with publication dates in the first quarter of 2015, in order that we continue to develop and publish significant public policy input work.

There can be a perception, due to their high profile, that traditional areas of operation – tariff reform, policies that affect markets and assistance to industry – remain dominant. However, micro economic policy has generally been more soundly-based in the past two

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decades than in preceding periods, slowly reducing the scope for what may be seen as our traditional work areas.

While the claims of firms seeking special assistance will always require continuous scrutiny - and examples have arisen again this year – they are unlikely to be the main game in the future for an organisation with ability to design detailed and effective policy responses to broader social and economic needs.

It is our hope that the Government will increasingly choose to call on the Commission for advice on social reform; and in the services sectors. The Commission has produced work that the Government has chosen to adopt as a basis for the development of significant social policy initiatives.

Many services – private and public – are provided where markets are not easily discerned or are weakened by poor incentives for efficiency and government purchasing arrangements.

These areas have been at the forefront of some of our most prominent recent work; and the need for good analysis is likely to grow as governments (State, as well as Federal) come under more pressure to improve both the quality but also the efficient targeting of health, education and training, aged care, wealth management, transport and housing.

The Commission is ready and able to provide this analysis.



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

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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

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# 1 Review of Commission activities and performance

## **Some highlights from 2013-14**

- published reports on a wide range of policy topics:
  - Australia's automotive manufacturing industry
  - Public infrastructure
  - Tasmanian shipping and freight
  - Minerals and energy resource exploration
  - National access regime
  - Processed tomato and fruit import safeguards
  - Major project development assessment processes
  - Regulator engagement with small business
  - Geographic labour mobility
- released a flagship research paper on an ageing Australia
- published the nineteenth edition of the annual Report on Government Services
- released a variety of other supporting research, including papers on Environmental Policy Analysis, Productivity in Manufacturing, Transition Pathways and Deep and Persistent Disadvantage

## **Some areas of focus for 2014-15**

- current inquiries and government-commissioned research:
  - Access to justice
  - Childcare and early childhood learning
  - Natural disaster funding
  - Costs of doing business in dairy manufacturing and retail trade
- a flagship research paper on public housing and access to employment
- give particular emphasis in the Commission's supporting research program to the sustainability of productivity growth
- Report on Government Services, Overcoming Indigenous Disadvantage and Indigenous Expenditure reports
- new research priorities in international tourism and the development of the gas market

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## Overview

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Consistent with the objective of raising national productivity and living standards, its remit covers all sectors of the economy.

The Commission 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 inquiries or studies
- supporting research activities and a statutory analysis of industry support
- performance reporting and related analysis of Commonwealth and State service provision
- competitive neutrality complaints.

Appendices D, E and F provide further detail on recent projects.

Over the year, the Commission has completed a considerable number of government commissioned projects on a diverse set of topics. These include inquiries and studies on automotive manufacturing, public infrastructure, Tasmanian shipping and freight, mineral and energy resource exploration, the national access regime, regulator engagement with small business, geographic labour mobility, access to civil justice and import safeguards.

Given that many of these projects have now been completed, there is significant scope for new projects to be commenced.

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 2013-14 included a study of major project development assessments to assist the work of the COAG Business Advisory Forum, and a study of regulator engagement with small business to assist the work of the COAG Business Regulation and Competition Working Group (BRCWG).

## 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 2013-14 are outlined below.

### Public inquiries and commissioned studies

There were ten public inquiries and five commissioned research studies underway at some point during 2013-14, a substantially higher workload than in recent years. In addition to completing eight references from the previous year, references were received for seven new projects on a range of topics (table 1.1 and figure 1.1).

**Table 1.1 Program of public inquiries and other government-commissioned projects<sup>a</sup>**

	2012-13					2013-14												2014-15							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
<b>Public inquiries:</b>																									
Compulsory Licensing of Patents	■	■																							
Electricity Network Regulation	■	■	■																						
Mineral and Energy Resource Exploration	■	■	■	■		■	■	■																	
National Access Regime	■	■	■	■		■	■	■	■																
Safeguards Inquiry (Processed Fruit Products)						■	■	■	■	■															
Safeguards Inquiry (Processed Tomato Products)						■	■	■	■	■	■														
Access to Justice						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Australia's Automotive Manufacturing Industry												■	■	■	■	■	■	■	■	■	■	■	■	■	■
Public Infrastructure																									
Childcare and Early Childhood Learning																									
Tasmanian Shipping and Freight																									
Natural Disaster Funding																									
<b>Commissioned research studies:</b>																									
Regulation Benchmarking: Regulator Engagement with Small Business	■	■	■	■		■	■	■																	
Major Project Development Assessment Processes	■	■	■	■		■	■	■	■																
Geographic Labour Mobility						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Costs of Doing Business: Dairy Manufacturing																									
Costs of Doing Business: Retail Trade																									

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

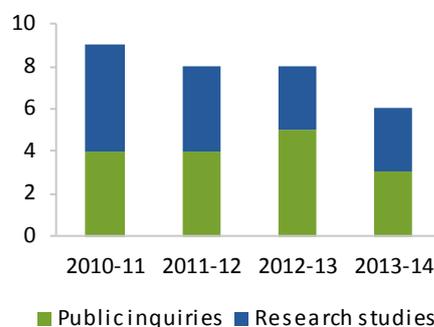
The Commission completed four inquiries commenced in 2012-13 on: **mineral and energy resource exploration**, the **national access regime**, and two inquiries into **whether safeguard action is warranted against imports of processed tomato products and processed fruit products**.

Five new inquiries commenced in 2013-14.

- In late October 2013, the Australian Government asked the Commission to inquire into Australia's **automotive industry**. The Terms of Reference included examination of the industry's current structure, productivity, investment, profitability, international competitiveness, exports, workforce structure and practices, skills levels and long-term sustainability. The changing international automotive environment, including further potential for Australian made cars to be exported overseas, and the type and level of support provided to overseas manufacturers. The changing nature of domestic demand and consumer preferences, including demand for new products and technologies; and Australia's attractiveness as an investment location for all phases of automotive manufacturing activity. A final report was provided on 26 August 2014.
- On 13 November 2013, the Australian Government asked the Commission to undertake a six month inquiry to consider ways to encourage private financing and funding for **public infrastructure projects**, including issues relating to the high cost and the long lead times associated with these projects. The Commission was asked to conduct a broad ranging investigation into costs, competitiveness and productivity in the provision of nationally significant economic infrastructure and examine ways to address any barriers to private sector financing, including assessing the role and efficacy of alternative infrastructure funding and financing mechanisms, and to recommend mechanisms and operating principles to overcome such barriers. It was also asked to consider ways to reduce infrastructure construction costs. A final report was provided on 27 May 2014.
- The Commission was asked by the Australian Government on 22 November 2013 to undertake an inquiry into **child care and early childhood learning**. In undertaking the inquiry, the Commission was asked to use evidence from Australia and overseas to report on, and make recommendations about, the contribution that access to affordable, high quality child care can make to increased participation in the workforce, particularly for women; and to optimising children's learning and development. The current and future need for child care in Australia was also to be considered, as was consideration of specific models of care for trial or implementation in Australia, with attention given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.

Figure 1.1 **References on hand**

Number as at 30 June



- 
- An inquiry into the arrangements for supporting **Bass Strait shipping** was also conducted during the year. The Commission was asked to examine shipping costs, competition and shipping industry competitive structures between the mainland and Tasmania; and identify the factors inhibiting the provision of international shipping services to Tasmania. It was also asked to consider the competitiveness of Tasmania's freight industry, economic infrastructure and possible reforms that would assist in enhancing effective competition, investment and productivity growth. A final report was provided to the Government in early March 2014.
  - The Australian Government asked the Commission on 28 April 2014 to undertake an inquiry into the efficacy of current national **natural disaster funding arrangements**. At the request of the Government, the scope of the inquiry has focused on naturally occurring rapid onset events that cause a serious disruption to a community or region, such as flood, bushfire, earthquake, storm, cyclone, storm surge, tornado, landslide or tsunami. In conducting its inquiry, the Commission was asked to analyse the full scope (incorporating the quantum, coherence, effectiveness and sustainability) of current Commonwealth, state and territory expenditure on natural disaster mitigation, resilience and recovery.

The Commission also continued its inquiry into **access to justice** during the year, and provided its final report to Government in September 2014.

Research studies commissioned by the Government were a further significant component of the Commission's workload in 2013-14. During the year the Commission finalised three studies commenced in the previous year on: regulator engagement with small business, major project development assessment processes, and geographic labour mobility.

Requests were also received during the year to conduct research studies on the costs of doing business in the dairy manufacturing and retail trade industries.

Further information on public inquiries and commissioned research studies undertaken during 2013-14 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 major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage: Key Indicators report; the Indigenous Expenditure Report; and (until the abolition of the COAG Reform Council in June 2014) the collation of performance data for the Council under the Intergovernmental Agreement on Federal Financial Relations.

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## Report on Government Services

The *Report on Government Services 2014* was the nineteenth in this series. The Report provides comparative performance information on 16 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 2014 Report collectively account for \$184 billion of government recurrent expenditure, equivalent to about 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 Aboriginal and Torres Strait Islander Australians.

The Review has a focus on improved reporting over time. The 2014 Report included new indicators and measures for several service areas, as well as improvements in the timeliness, comparability, quality and scope of reporting.

### 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.

In early 2012, an external consultant was appointed to undertake a review of the OID report. The review found a positive view of the report and identified a number of opportunities to strengthen it, including a broadening of focus from overcoming disadvantage to improving wellbeing. The review and the Steering Committee's response can be found on the Commission's website.

The next report is anticipated to be released in late 2014.

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## 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 Aboriginal and Torres Strait Islander Australians, and provides policy makers with an additional tool for targeting policies to address the disadvantage experienced by many Aboriginal and Torres Strait Islander Australians.

Two reports have been published, in 2010 and 2012. The next Indigenous Expenditure Report, planned for release in late 2014, will provide comparable estimates of expenditure for each level of government, Australia as a whole, and by state and territory, for 2008-09, 2010-11 and 2012-13.

## National Agreement reporting

In November 2008, COAG endorsed the 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. The Productivity Commission, in association with a Commonwealth-State Steering Committee, provided the CRC with the performance information needed to undertake its assessment, analytical and reporting responsibilities.

In May 2014, the Commonwealth announced that the CRC would cease operations from 30 June 2014, and the Department of the Prime Minister and Cabinet would have an ongoing monitoring role in relation to the National Agreements. The roles of the Commission and the Steering Committee under these changed arrangements are still to be determined.

## 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 one formal written complaint in 2013-14. Details of the complaint and action taken by the AGCNCO are provided in appendix C.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2013-14, 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.

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

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

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

A flagship project, directed to an area of imminent public policy interest, was created for the first time. This considered the impact of demography and an ageing population on aspects of health, aged care and the age pension. The Commission put forward for public debate a number of potential policy shifts to deal with identified issues. It also provided a substantial data input to the expected 2015 Intergenerational Report by the Treasury.

In 2013-14 the Commission's supporting research program also covered a number of important economic, environmental and social topics. It included work on deep and persistent disadvantage, transition pathways in education and the labour market, environmental policy analysis and literacy and numeracy skills.

Several reports on productivity, including a Productivity Update and a staff working paper on productivity in manufacturing, were also published.

Further information on the Commission's supporting research activities and publications in 2013-14 is provided in appendix E. This also details the 84 presentations given by the Chair, 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 15 international delegations and visitors during 2013-14, with a focus on the Commission's role and activities and related policy matters (table E.2). In 2014-15, 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.

## **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.

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## Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. During the course of its public inquiry activities in 2013-14, the Commission met with more than 440 organisations or groups, held 35 days of public hearings, and received around 1670 submissions.

The Commission has adapted its processes to suit the variety of research 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 applicable, draft recommendations. For example, the Commission received around 150 submissions to these studies in 2013-14, with many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

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.

## 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.

### Box 1.1 Participative and transparent processes

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

In undertaking its study of geographic labour mobility, for example, Commissioners and staff met with stakeholders across Australia, visiting every capital city. Given the study covered issues affecting regional areas (particularly mining communities), Commissioners and staff also visited Newcastle, Moranbah and the Pilbara. Pre-draft and post-draft roundtables were held in Melbourne and Canberra, and a public forum was held on the Gold Coast. The public forum, held in Surfers Paradise and advertised in the Gold Coast Bulletin, provided an opportunity to get a local perspective on issues and receive valuable feedback from the public on the key points from the draft report.

Innovative approaches to consultation were also apparent, mixing old and new formats, in the Commission's ongoing 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. There were 464 formal submissions also received by the Commission prior to the release of the draft report. On the release of its draft report in July 2014, the Commission also used a series of short YouTube clips to outline its approach and key recommendations.

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Together with the Reserve Bank of Australia and the Lowy Institute, the Commission organised a conference in March 2014 on financial flows and infrastructure finance. The conference brought together senior central bankers, government officials, leading academics and prominent practitioners to discuss: the factors affecting the ability of savings to flow across borders to the most productive investments; the role of financial market development; the challenges specific to infrastructure financing; the ability of public private partnerships to rise to these challenges; and the potential for institutional investors to meet the financing needs of infrastructure providers.

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. In the year there were 21 seminars provided by external experts on a range of topics, including linked data, housing policies, public-private partnerships, patent analytics, federal reform strategies, hospital efficiency and the regulation of infrastructure.

There is also a Visiting Researcher Program which 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 2013-14 Dean Parham and Dr Larry Cook were Visiting Researchers at the Commission.

## **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:

- A number of Commissioners are members of various advisory boards and committees and non-profit organisations, including the Institute of Public Administration of Australia, the Brotherhood of St Laurence, Dairy Australia, the Australian Rural Leadership Foundation, the Royal Aeronautical Society and the Australian Institute of Company Directors.
- 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 also received funding from the Australian Government to undertake a visit program for government officials in APEC, ASEAN and East Asia Summit economies across 2013-14. As part of the program, visits to Australia were conducted during the year by officials from the Philippines, Thailand and Cambodia.

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## e Government and the Commission's communications approach

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

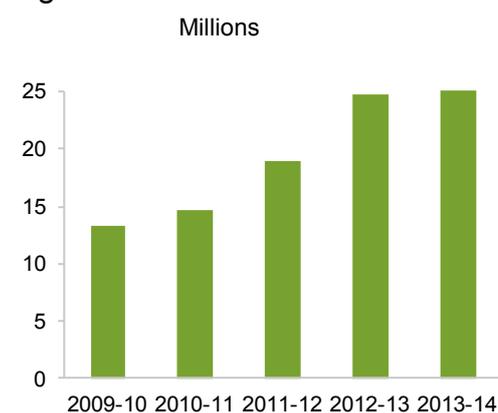
An email alert service currently notifies more than 1500 recipients of significant events, including report releases and the commencement and completion of inquiries. Additional email alerts are also sent to Commonwealth parliamentarians, the media, government departments and contacts in the states and territories.

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

The Commission's website received over 25 million file requests from external users in 2013-14 (figure 1.2). There were more than 192 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2013-14. The projects of most interest were childcare (29 171 requests), public infrastructure (23 538 requests), access to civil justice (27 832 requests) and automotive manufacturing (24 647 requests). Other heavily accessed web pages were for the 2013 and 2014 *Report on Government Services* (24 652 and 32 096 requests, respectively) and the 2011 *Overcoming Indigenous Disadvantage: Key Indicators* report (12 047 requests).

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Figure 1.2 **Website hits**



Speeches by the Commission's Chair attracted more than 18 900 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. Box 1.2 provides some examples of support for the Commission's contribution.

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.

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## Box 1.2      **Respect for Commission activities: some recent examples**

In welcoming the announcement of the inquiry into childcare and early childhood learning in November 2013, the Prime Minister, the Hon. Tony Abbott, stated that the Commission:

... has done magnificent work on a whole range of subjects... there is no better body to look at it than the Productivity Commission. (Abbott 2013)

When discussing the Commission's report on regulator engagement in October 2013, the Minister for Small Business, the Hon. Bruce Billson, said:

The Commission's report represents a significant body of work that can inform broader work on deregulation. (Billson 2013)

During the year COAG identified several further areas where Commission projects would assist it with its work. Specific projects undertaken to assist policy development across jurisdictions in 2013-14 included a study of major project development assessments to assist the work of the COAG Business Advisory Forum, and a study of regulator engagement with small business to assist the work of the COAG Business Regulation and Competition Working Group (BRCWG).

In May 2014 a report by the Australia Institute and Australia21 called for a Commission inquiry into the impact of inequality on economic efficiency and growth. (Douglas, Friel, Denniss and Morawetz 2014)

Infrastructure Partnerships Australia produced a discussion paper in March 2014 that called on the Treasurer to direct the Commission to establish a detailed public inquiry into the funding, regulation and pricing of Australia's road transport market, and related impacts in the broader transport market. (Infrastructure Partnerships Australia 2014)

The Australian Competition and Consumer Commission recommended in June 2014 that the Commission be asked to conduct a comprehensive review of Australia's intellectual property arrangements. (ACCC 2014)

The Australian Greens proposed in November 2013 that the Commission be asked to conduct a review of rental assistance. (Ludlam 2013)

In its submission to the Competition Policy Review, the New South Wales Government proposed that the Commission should be tasked with determining the growth and revenue impacts of any future reform package; and be asked to prepare a five-yearly report on Australia's productivity performance, factors impeding productivity growth (including impediments to competition), and the future direction for productivity-enhancing reform. (New South Wales Government 2014)

A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a diverse range of topics including the Qantas Sale Act; the regulation of road use by bikes; departmental functions and programs; the fiscal performance of Australian governments using scorecard indicators; corporate welfare; and fees and charges in public health.

General endorsement of the Commission's role and work can also be found in various proposals for new agencies that have similar roles. For example, in January 2014, the Indian Council for Research and International Economic Relations called for the establishment of a National Productivity Commission, focused on productivity-based growth across all sectors of the Indian economy, including services and agriculture. (Raj 2014)

Details are provided in appendix B.

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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:

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.)

## **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.

- On 9 May 2014 the Australian and New Zealand Governments released a joint response to the report by the Australian and New Zealand Productivity Commissions on strengthening economic relations between the two countries (Australian Government and New Zealand Government 2014). Of the 32 recommendations made in the report, the Government response listed 25 recommendations that received joint support, support in-part or that were being addressed under existing government arrangements. Seven recommendations were deemed as requiring further consideration.

A recommendation on the mutual recognition of imputation credits will be considered as part of the White Paper on taxation, as already announced. Also the Commission's report recommended 5 yearly reviews of the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) to take stock of what has been achieved and learnt

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and to ensure that the agenda remains relevant and forward looking. The governments' response states that they will, ahead of the 2015 Leaders' meeting, consider how to progress the five-yearly reviews of CER, including identifying opportunities for further collaboration between the productivity commissions.

- On 28 May 2014, the Australian Government released an interim response to the Commission's report on minerals and petroleum resource exploration (Australian Government 2014a). The response stated:

Of the 22 recommendations, the Commonwealth has implemented six through previous processes; agreed five; provisionally agreed four; and noted seven. This forms the Commonwealth's interim response. The interim response is being tabled in order to commence negotiations with the states and Northern Territory; a final response will be tabled within 24 months. (Australian Government 2014a, p. 2)

The recommendations agreed to by the Commonwealth included endorsement of the National Offshore Petroleum Safety and Environmental Management Authority's (NOPSEMA's) process to assess environmental approvals; strengthened bilateral arrangements with the States and Territories for assessments; undertaking and publishing a review of the benefits and costs of the 'water trigger' amendment to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth); and setting regulatory requirements relating to exploration that are proportionate to impacts and risks.

- The Australian Government released a response to the Commission's report on automotive manufacturing on 26 August 2014. The response 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.

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

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 (appendix B).

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## Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2013-14 sittings of the *Federal Parliament*:

- 110 Members and Senators referred to 47 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, automotive manufacturing and paid parental leave.

In addition, there were 102 mentions of the Commission and its work in the Hansard proceedings of *Federal Parliamentary Committees* in 2012-13. The Commission was mentioned in the proceedings of 16 different committees, most prominently in proceedings of the Senate Standing Committee on Economics and the House of Representatives Standing Committee on Economics. The most frequent mentions were to the reports on infrastructure, childcare and major projects.

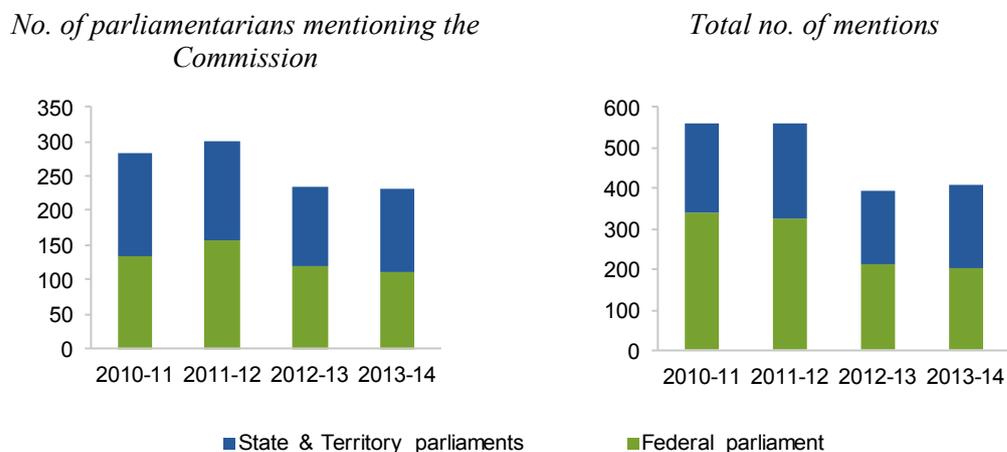
Parliamentary committees and the Parliamentary Library drew on a range of Commission inquiry and research outputs in their own reports and briefing materials during the year (table B.1). Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

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 2013-14 sittings of the eight state and territory parliaments:

- 120 members referred to 44 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes
- in 71 per cent of the 207 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, while less than 0.7 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, gambling and automotive manufacturing also featuring prominently.

Recent trends in mentions of the Commission in federal, state and territory parliamentary proceedings are shown in figure 1.3.

**Figure 1.3 Mentions of the Commission in Australian parliaments, 2010-11 to 2013-14**



## Other indicators of policy impact

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

- use of Commission analysis during the year by the Prime Minister, Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers, including use of Commission reports on public infrastructure, an ageing Australia, trade and assistance and disability care and support
- 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, 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 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 Queensland, New South Wales, Victoria and Western Australia. The Commission also responded to requests for briefings to visiting officials and delegations from Taiwan, Timor Leste, Lao PDR, Myanmar, Liberia, Indonesia, China, Thailand, South Korea, India, Japan, Vietnam and the OECD (table E.2).

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A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2013-14, 28 editorials in major metropolitan newspapers drew on the findings or recommendations in 11 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on infrastructure, trade agreements, automotive manufacturing and childcare featured prominently.

The Commission rated an average of 150 mentions a month in electronic media and an average of 250 mentions a month in print media in 2013-14. 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 2013-14 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 appearances at Senate Estimates during the year are provided in Appendix B. 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.

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

- the 2015 *Productivity Update*, which will include reporting on recent trends in productivity performance
- *Trade & Assistance Review 2013-14*, which will report on trade policy and assistance developments and contain the Commission's latest estimates of assistance to Australian industry.



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# A Management and accountability

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

## Overview

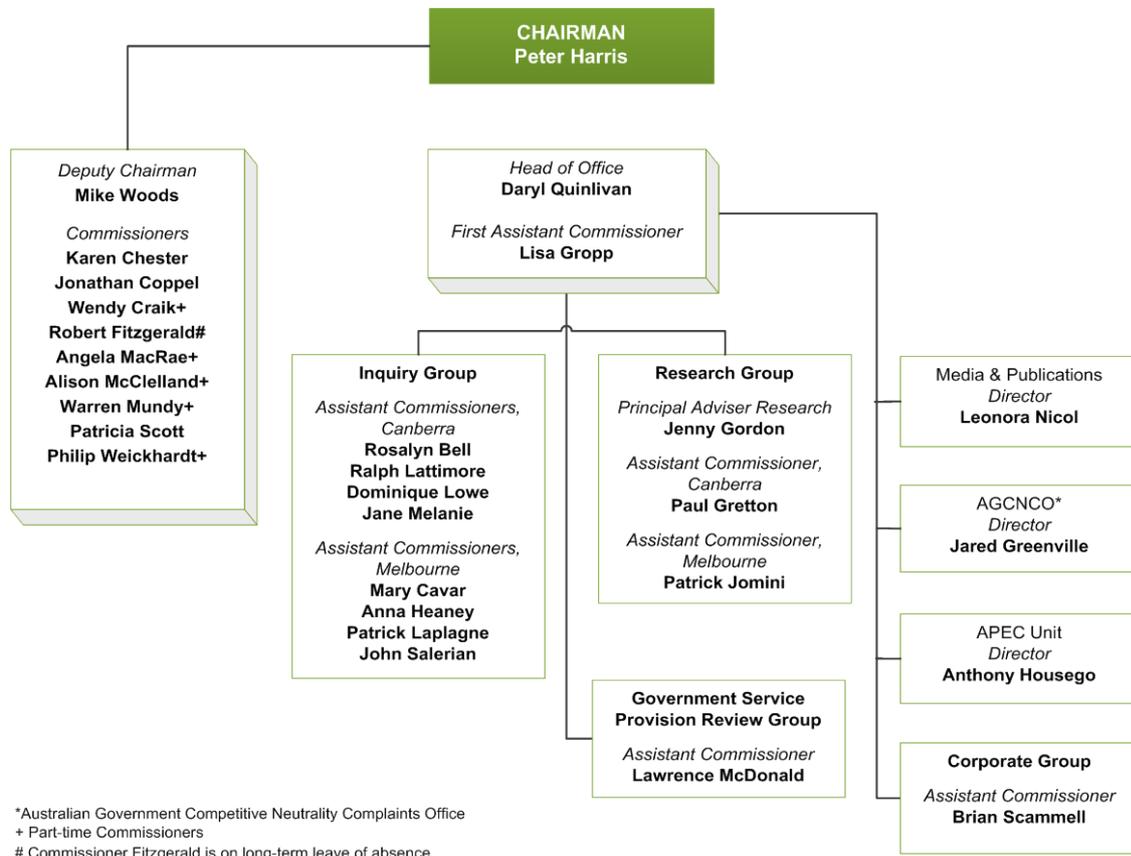
### Role and structure

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

The Commission comprises its Chairman and between four and 11 other Commissioners, appointed by the Governor-General for periods of up to five years. Associate Commissioners can be appointed by the 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 2014 are shown in figure A.1.

**Figure A.1 Productivity Commission structure and senior staff, 30 June 2014**



## Commissioners

At 30 June 2014 there were eleven members of the Commission, including the Chairman. Five Commissioners held part-time appointments. One Commissioner was on long-term leave of absence to undertake another senior appointment.

Ms Karen Chester was appointed as a full-time Commissioner on 12 December 2013 for a period of five years. Prior to her appointment, Ms Chester was a Partner in Mercer's Investments business and Global Head of Infrastructure. Before joining Mercer, she was a Partner at Access Capital Advisers (and CEO of its predecessor, Access Economics) and held directorships on several Australian infrastructure company boards. Before her move to the private sector, Ms Chester held senior roles in key economic policy areas of the Commonwealth Treasury and the Department of Prime Minister and Cabinet. Ms Chester has a first class honours degree in economics from the University of Queensland and is a graduate of the Australian Institute of Company Directors.

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Mr Philip Weickhardt was re-appointed as a part-time Commissioner for a period of one year from 12 December 2013.

Mr Robert Fitzgerald AM was re-appointed as a full-time Commissioner for a period of five years from 26 January 2014. He is currently on leave from the Commission, pending the completion of his appointment as a Commissioner on the Royal Commission into Institutional Responses to Child Sexual Abuse.

Ms Wendy Craik AM was re-appointed as a part-time Commissioner from 4 June 2014 to 31 December 2014.

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**

At 30 June 2014, there were no current Associate Commissioner appointments.

During 2013-14, Mr Paul Lindwall was appointed as an Associate Commissioner on a full-time basis for the duration of the inquiry into public infrastructure. Mr Lindwall had 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 Organisation for Economic Co-operation and Development (OECD) and the European Union and worked as a senior adviser to then Treasurer and Leader of the Opposition. Most recently he has been a consultant at the OECD in Paris. At the Productivity Commission, Mr Lindwall worked on the *Caring for Older Australians* inquiry and the *Contribution of the Not-for-Profit Sector* study.

Other Associate Commissioner appointments completed during 2013-14 are listed in table A1.3 of Attachment A1.

## **Staff**

The average staffing level during 2013-14 was 185 compared to 199 in 2012-13.

The Commission recruited 11 staff during the year, including seven through its graduate recruitment program. Staff turnover was approximately 18 per cent.

Statistical information on staffing is provided in tables A1.3 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 44 — are summarised in table A.1. An agency resource statement for 2013-14 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 * 2013-14</i>	<i>Actual 2013-14</i>	<i>Variation</i>
	\$'000	\$'000	\$'000
<b>Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective</b>	(a)	(b)	(a-b)
<b>Program 1.1</b>			
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	36 359	35 293	1 066
Revenues from independent sources (Section 31)	885	885	–
Expenses not requiring appropriation in the Budget year	1 121	1 121	–
<b>Total for Outcome 1</b>	<b>38 365</b>	<b>37 299</b>	<b>1 066</b>
	2012-13	2013-14	
Average Staffing Level (number)	199	185	

\* Full-year budget, including any subsequent adjustment made to the 2013-14 Budget..

## Governance

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

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

- establishing clear responsibilities for decision-making and the undertaking of mandated activities
- ensuring accountability through the monitoring of progress, and compliance with legislative and other requirements, of mandated activities

- 
- underpinning these arrangements through the promotion of a risk management and ethical behaviour culture.

## **Key responsibilities**

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

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

The Research Committee is responsible for approving research proposals and ensuring that these are consistent with the Commission's objectives and current research themes. More generally, it also promotes the effectiveness and efficiency of the Commission's research program. It meets monthly and comprises the Chairman (as chair), the Deputy Chairman, the Head of Office, the Principal Adviser Research, the First Assistant Commissioner/s and two Assistant Commissioners.

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:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- the Research Committee reports on a quarterly basis on the status and future directions of the research program
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis

- 
- a Commissioner designated with responsibility for competitive neutrality issues reports to the Commission on a quarterly basis
  - the Head of Office provides Commissioners with a monthly update on key management issues.

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

## **Risk management and fraud control**

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

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. 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. The Commission's various employment agreements contain a commitment from employees to at all times conduct themselves in a manner consistent with the Values and Code.
- All employees have been provided with a copy of the Values and Code, while new employees receive a copy as part of their induction.
- Senior managers in particular are encouraged to set an example through the ethical and prudent use of Commonwealth resources.

The Commission has developed a number of specific policies relating to ethical standards which have regard to its own operational context. These deal with matters such as email and internet use, harassment and bullying, discrimination, fraud, disclosure of information,

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and managing conflicts of interest. The policies are readily available to all employees. Staff awareness and training sessions are offered periodically on these topics.

## **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 the corporate chapters of the Commission's annual reports.

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

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 2013-14 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2013-14 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 2013-14 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 2013-14 the Commission undertook a review of its website structure, presentation and accessibility of content. A redeveloped website resulting from that work will be available in the first half of 2014-15.

*Information technology:* Maintenance, review and upgrade of Commission ICT infrastructure has continued. In 2013-14, 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 2013-14, the Commission continued a system of performance appraisal for staff and senior executives, intended to enhance individual development and

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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 2013-14, 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 2013-14 focused on payroll and fraud risk assessment. No control or compliance deficiencies involving unacceptable risk were identified.

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

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

## **Management of human resources**

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

### **Workforce planning**

Management Committee plays the key role for ensuring alignment between the Commission's resources and its future capability requirements. During 2013-14, the Commission undertook an organisational restructure to adjust to a lower funding base in 2014-15 and subsequent years.

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. Seven new

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employees were engaged during 2013-14 through the Commission's graduate recruitment program.

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

## **Remuneration and employment conditions**

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 15 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 12 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 A1.6 provides details of salary ranges at 30 June 2014.

The Commission's non-SES employees are covered by an enterprise agreement. The levels of remuneration and terms and conditions of employment of approximately 145 employees are covered by this agreement. Six individual flexibility agreements are in place, mainly addressing allowances and working hour arrangements.

The enterprise agreement provides for improvements in remuneration and other conditions, while also providing a basis for productivity improvements. The agreement includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding environment for employees.

The enterprise agreement has a nominal expiry date of 30 June 2014 and bargaining has commenced 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 occurs 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 no longer 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. The PCCC met on several occasions during the year to discuss a range of workplace issues.

In addition, direct consultation between management and employees occurs on a regular basis, including through 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.

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Recorded expenditure on learning and development in 2013-14 was 1 per cent of the annual salary budget. This expenditure related to:

- 81 employees who undertook a total of 224 days of specific training and development
- 13 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 2013-14.

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 2013-14.

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

WHS activities during the year included:

- Commission-funded flu vaccinations (take up rate in 2013-14 was around 58 per cent)
- ergonomic work station assessments (42 were completed, including 15 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 0.08 per cent of payroll. The premium rate was the second lowest of all Commonwealth agencies. There was one claim for injury in 2013-14.

### **Employee Assistance Program**

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. Sixteen employees or their families utilised the service in 2013-14.

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## Workplace diversity

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

## 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](http://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](http://www.dss.gov.au).

## Financial performance

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

Revenue from government decreased in 2013-14 to \$36.4 million (\$37.4 million in 2012-13). Revenue from other sources decreased in 2013-14 to \$0.9 million (\$1.1 million in 2012-13).

Operating expenses decreased in 2013-14 to \$37.3 million (\$37.4 million in 2012-13). The major expenses in 2013-14 were \$29.5 million in respect of employee expenses, \$6.7 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 2013-14 was a \$1.1 million surplus, after excluding those depreciation and amortisation expenses (or broadly ‘break-even’ if those expenses were included).

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 2013-14 are shown in appendix G.

## Purchasing

The Commission applies the Commonwealth Procurement Rules. The Commission's purchases of goods and services during 2013-14 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 2013-14 included a provision for the ANAO to have access to the contractor's premises if required.

## 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 2013-14, eleven new consultancy contracts were entered into involving total actual expenditure of \$28 575. There were no ongoing consultancy contracts active during the 2013-14 year.

Table A.2 provides information on expenditure on consultants in the five years to 2013-14.

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

	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	49	36	153	40	29

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## Legal services

Total expenditure on legal services in 2013-14 was \$3 167 (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. Examples of Commission projects where different aspects of ESD have arisen have been provided in past annual reports. Recent Commission reports on *Barriers to effective climate change adaptation* and *Mineral and energy resource exploration* are further examples of work undertaken requiring integration of complex economic, social and environmental considerations.

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

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

In pursuing this outcome, the Commission is required to take into account impacts on the community as a whole — these may be economic, social and/or environmental. The transparency of its processes provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. Consequently, a broad range of views and circumstances are taken into account, in keeping with the ESD

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principle that ‘decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations’.

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

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

During 2013-14, the Commission recorded energy usage of 8 103 MJ/person/annum (2012-13: 7 237 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 2013-14. The building in which the Commission has its Melbourne office has a 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 F lists all the Commission’s publications in 2013-14.

## **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’. However, the Commission publicises its government-commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *PC Update*, press releases, a

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Twitter and email alert service, notification on the Commission's website and distribution of Commission circulars.

A total of \$55 389 was paid for advertising (including recruitment advertising) in 2013-14 to Adcorp Australia Ltd.

## **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 2001*, section 49 of the *Financial Management and Accountability Act 1997* 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 and Publications  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601  
Telephone: (02) 6240 3239  
Facsimile: (02) 6240 3300

# Attachment A1

## Commissioner and employee statistics

**Table A1.1 Chair and Commissioners, 30 June 2014**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr P Harris AO (Chairman) (M)	11 Mar 2013	10 Mar 2018
Mr M C Woods (Deputy Chairman) (C)	17 Apr 2011	16 Apr 2016
Ms K Chester (S)	12 Dec 2013	11 Dec 2018
Mr J Coppel (M)	28 Jul 2011	27 Jul 2016
Dr W Craik AM (C) (p/t)	4 Jun 2014	31 Dec 2014
Mr R Fitzgerald AM (C)	27 Jan 2014	26 Jan 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
Ms P Scott (C)	7 Sep 2009	6 Sep 2014
Mr P Weickhardt (M) (p/t)	12 Dec 2013	11 Dec 2014

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

There were no part-time Associate Commissioner appointments as at 30 June 2014.

**Table A1.2 Associate Commissioners completing appointments during 2013-14**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr P Barratt AO (p/t)	Import of Processed Fruit and Tomato Products – Safeguards Inquiries	20 Jun 2013	20 Jan 2014
Mr P Lindwall	Public Infrastructure Inquiry	25 Nov 2013	13 May 2014

**Table A1.3 Employees by location and gender, 30 June 2014**

	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	0	0	0	1	1	0	1	1
SES Band 2	1	0	1	1	1	2	2	1	3
SES Band 1	2	5	7	3	3	6	5	8	13
Staff Level 4	8	13	21	7	12	19	15	25	40
Staff Level 3	16	14	30	5	8	13	21	22	43
Staff Level 2	17	12	29	7	7	14	24	19	43
Staff Level 1	9	4	13	7	2	9	16	6	22
<b>Total<sup>b</sup></b>	<b>53</b>	<b>48</b>	<b>101</b>	<b>30</b>	<b>34</b>	<b>64</b>	<b>83</b>	<b>82</b>	<b>165</b>
Corresponding totals at 30 June 2013 <sup>a</sup>	59	59	118	29	39	68	88	98	186

<sup>a</sup> Totals exclude 9 inoperative employees at 30 June 2013. <sup>b</sup> Totals exclude 4 inoperative employees at 30 June 2013; 2014 totals include two acting Staff Level 4's, and one Staff Level 2.

**Table A1.4 Employees by employment status and gender, 30 June 2014**

	<i>Female</i>			<i>Male</i>			<i>Total</i>		
	<i>F/t</i>	<i>Pt</i>	<i>Total</i>	<i>F/t</i>	<i>Pt</i>	<i>Total</i>	<i>F/t</i>	<i>Pt</i>	<i>Total</i>
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	2	0	2	1	0	1	3	0	3
SES Band 1	5	0	5	8	0	8	13	0	13
Staff Level 4	12	3	15	23	2	25	35	5	40
Staff Level 3	15	6	21	22	0	22	37	6	43
Staff Level 2	18	6	24	19	0	19	37	6	43
Staff Level 1	10	6	16	6	0	6	16	6	22
<b>Total<sup>b</sup></b>	<b>62</b>	<b>21</b>	<b>83</b>	<b>80</b>	<b>2</b>	<b>82</b>	<b>142</b>	<b>23</b>	<b>165</b>
Corresponding totals at 30 June 2013 <sup>a</sup>	71	17	88	93	5	98	164	22	186

<sup>a</sup> Totals exclude 9 inoperative employees at 30 June 2013. <sup>b</sup> Totals exclude 4 inoperative employees at 30 June 2013; 2014 totals include two acting Staff Level 4's, and one Staff Level 2.

**Table A1.5 Salary ranges, 30 June 2014<sup>a</sup>**

<i>Level</i>	<i>Minimum (\$)</i>	<i>Maximum(\$)<sup>b</sup></i>
SES Band 2	203 496	264 222
SES Band 1	158 883	217 419
Staff Level 4 <sup>c</sup>	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

<sup>a</sup> The major non-salary benefits superannuation, which is not included in the table. During 2012-13 the Commission employed one SES Band 3 employee not included in this table. <sup>b</sup> 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. <sup>c</sup> 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 A1.6 Employees by level and reason for separation, 2013-14**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>RP<sup>a</sup></i>	<i>Other</i>	<i>Total</i>
SES	0	0	1	0	3	0	4
Staff Level 4	0	0	1	0	7	0	8
Staff Level 3	0	0	1	0	10	0	11
Staff Level 2	0	0	1	0	9	0	10
Staff Level 1	0	0	1	0	1	0	2
<b>Total</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>35</b>
Corresponding totals at 30 June 2013	0	5	15	0	7	0	27

<sup>a</sup> Redundancy package.

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## Attachment A2

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### Agency Resource Statement — 2013-14

	<i>Actual Available Appropriation 2013-14</i>	<i>Payments Made 2013-14</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
<b>Ordinary Annual Services</b>			
<b>Departmental appropriation<sup>1</sup></b>			
Prior year Departmental appropriation	23 571		
Departmental appropriation 2013-14	36 638	35 748	
<b>S.31 Relevant agency receipts<sup>2</sup></b>	972	972	
<b>Total ordinary annual services</b>	61 181	36 720	24 461
<b>Total Resourcing and Payments</b>	<b>61 181</b>	<b>36 720</b>	<b>24 461</b>

<sup>1</sup> Appropriation Bill (No.1) 2013-14 and Appropriation Bill (No.3) 2013-14.

<sup>2</sup> Receipts received under section 31 of the *Financial Management and Accountability Act 1997*.

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## Attachment A3



Australian Government  
Productivity Commission

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Collins Street East  
Melbourne VIC 8003  
Telephone 03 9653 2100  
Facsimile 03 9653 2199  
[www.pc.gov.au](http://www.pc.gov.au)

20 August 2014

*From the Chairman's Office*

### Annual Report 2013-14 – Fraud Control Certification

In accordance with the *Commonwealth Fraud Control Guidelines 2011* (the Guidelines), 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 and investigation and reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Guidelines; and
- taken all reasonable measures to minimise the incidence of fraud in the Commission and to investigate and recover the proceeds of fraud against the Commission.

A handwritten signature in black ink, appearing to read 'Peter Harris AO', written in a cursive style.

Peter Harris AO

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# Attachment A4

## Compliance index

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

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**Compliance with the Productivity Commission Act**

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

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

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

- *Productivity Update 2015*
- *Trade & Assistance Review 2013-14*



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## B Program performance

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

**The Commission's four main activity streams are public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, competitive neutrality complaints activities, and supporting research and statutory annual reporting. This appendix sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's main activities and related performance in 2013-14.**

### **Objectives for performance assessment**

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

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

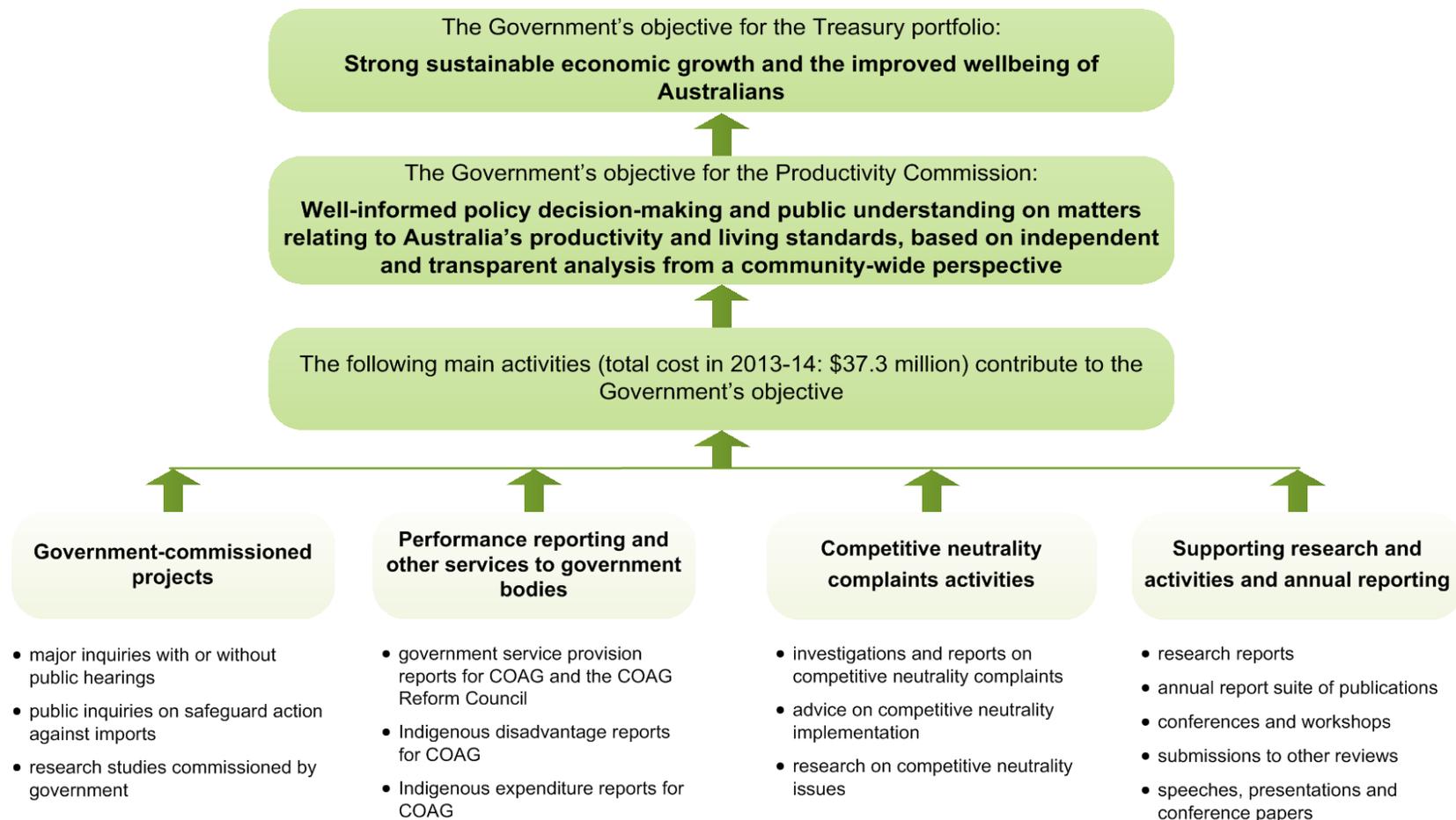
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. These can be classified into four main activity areas:

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

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

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

Figure B.1 **Productivity Commission main activities 2013-14**



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## Commission activities

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

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

### Commissioned projects

Government-commissioned projects have individual terms of reference.

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

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

### Standing functions

The Government has established the following standing research, investigatory and advisory functions for the Commission:

- secretariat and research services for the Steering Committee for the Review of Government Service Provision. As an integral part of the national performance reporting system, the Steering Committee informs Australians about services provided by governments and enables performance comparisons across and within jurisdictions (SCRGSP Terms of Reference). The Steering Committee is required to:

- 
- measure and publish annually data on the equity, efficiency and cost effectiveness of government services through the Report on Government Services
  - initiate research and report annually on improvements and innovation in service provision
  - produce the regular Overcoming Indigenous Disadvantage: Key Indicators report
  - produce the two-yearly Indigenous Expenditure Report
  - (until the abolition of the COAG Reform Council in June 2014) collate performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council
  - reports and related activities necessary to meet the Commission’s statutory obligation to investigate any complaint that an Australian Government business is not conducted in accordance with competitive neutrality arrangements.
  - statutory annual reporting on assistance and regulation benefitting different industries (published as the Trade & Assistance Review) and on industry and productivity performance generally (encompassed in the Productivity Update).

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

## Supporting research

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

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

- The suite of three annual reporting publications, as well as Commission Research Papers and submissions to other inquiries or reviews established by government or parliament, present the Commission’s views on policy issues.
- Published research by Commission staff aims to provide the information and analysis needed to inform policy discussion within government, parliaments and the broader community. Such research contains no recommendations, but can provide ‘building blocks’ for policy development.
- Publication of the proceedings of conferences and workshops sponsored by the Commission, and of consultants’ reports to the Commission, is also intended to

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promote and inform discussion on important policy issues. As with staff publications, the views expressed need not reflect the views of the Commission.

## Interpreting performance indicators for the Commission

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

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

First, the effectiveness with which the Commission's activities contribute to the achievement of its designated outcome can be difficult to assess and is often subjective. The Commission is but one source of policy advice. Furthermore, feedback on the Commission's performance often can be of an informal kind, which is hard to document and collate systematically. Where views are documented, they can reflect the interests of those affected by the Commission's findings or advice.

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

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

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## Box B.2      **Longer term influence**

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

- In June 2014, the Australian Government released its Green Paper on Developing Northern Australia (Australian Government 2014b). This drew on a range of Commission work, including a 2002 Commission Research Paper on pastoral leases and non-pastoral land use.
- The Commission's 2009 study on restrictions on the parallel importation of books continued to inform discussion on this topic, including for example in Williamson (2014) and Donoghue (2014).
- Discussion on the estimated cost of an outbreak of foot and mouth disease in Australia continued to draw on the Commission's estimates from 2006. This included, for example, Senate Standing Committees on Rural and Regional Affairs and Transport (2013); and Knight-Jones and Rushton (2013).
- Past Commission work on a range of subjects also continued to inform the work of the Parliamentary Library. For example, the Commission's 2000 report on broadcasting was used in a research paper on media reform in October 2013; and the Commission's 2008 study on chemicals and plastics regulation was used in a Bills Digest on amended agricultural and veterinary chemicals legislation.
- The Consumer Action Law Centre drew on the Commission's 2008 consumer policy review as part of its submission to the Financial System Inquiry (Consumer Action Law Centre 2014).
- In April 2014, the Centre for International Economics, in a report for the Australian Communications and Media Authority, drew on the analysis in several past Commission reports in discussing the economic impacts of mobile broadband on the Australian economy (CIE 2014). This included a 2004 Commission research paper on ICT and productivity; and a 2006 report on the potential benefits of the National Reform Agenda.
- The Australian Healthcare and Hospitals Association, the Menzies Centre for Health Policy and Catholic Health Australia drew on a 1999 Commission report on private hospitals in Australia when discussing the better use of resources through improved public and private hospital contracting (Boxall, Tobin and Gillespie 2014).
- A 1999 Commission report on the regulation of the taxi industry was used by the Independent Pricing and Regulatory Authority of New South Wales in a review of maximum taxi fares and taxi licences in March 2014 (IPART 2014).
- The Business Council of Australia drew on a 2001 Commission report on cost recovery by government agencies in its 2014-15 Budget Submission (Business Council of Australia 2014). The same Commission report was also used by the Australian National Audit Office when discussing the Australian Prudential Regulation Authority's industry levy methodology (ANAO 2013).

Third, the Commission has to give priority to certain projects and allocates its resources accordingly. The quantum and scope of the Commission's work are, to a significant extent, determined externally. This includes the number and timing of government-commissioned projects and competitive neutrality complaints. Similarly, its secretariat and research work

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for the Review of Government Service Provision is guided by a Steering Committee. As a consequence, the number and timeliness of projects from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other standing commitments.

Fourth, the Commission has no control over the release of its final inquiry reports (unlike its draft reports), although the *Productivity Commission Act 1998* requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports, and the nature of the decisions themselves, are matters for the Government. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, has enhanced the transparency of government decision making on Commission reports and permitted better assessment of their contribution to public policy making. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing the Commission's contribution to outcomes. All inquiry reports in 2013-14 were tabled within the statutory period.

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

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

## **Feedback surveys**

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

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

## **Other feedback**

As noted in chapter 1, the Commission continued to provide feedback opportunities through email, online surveys, and survey forms included in publications or issued to participants in the Commission's public hearings. Comments are passed to management

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and authors for consideration. Much of the feedback received through these mechanisms this year was positive.

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

The inquiries and reports which figured most prominently in federal parliamentary debate during 2013-14 were those on childcare, automotive manufacturing and paid parental leave. As noted in chapter 1, 110 Members and Senators referred to 47 different Commission reports or inquiries, or to the Commission's role in policy processes, during the 2013-14 parliamentary proceedings.

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

- Parliamentary committees and the Parliamentary Library continued to draw on a range of Commission inquiry and research outputs in their own reports during the year (table B.1). This included use in Committee Reports, Bills Digests and Research Papers.
- Extensive use of Commission reports was also made in the Parliamentary Library's *Budget Review 2014-15*, which is a key briefing document for Parliamentarians on the Budget.
- People appearing at the hearings of parliamentary committees in 2013-14 referred to Commission outputs in more than 35 different topic areas.

## **Use of Commission Reports by the Audit Office**

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2013-14 the ANAO drew on analysis and recommendations in the Commission's 2011 report *Caring for Older Australians* in Audit Report No. 46, *Administration of Residential Care Payments*. Findings from the Commission's 2013 report on *Major Project Development Assessment Processes* was also used in Audit Report No. 43, *Managing Compliance with Environment Protection and Biodiversity Conservation Act 1999 Conditions of Approval*. The Commission's 2014 research on a *Regulator Audit Framework* was drawn on in Audit Report No. 38, *Establishment and Administration of the National Offshore Petroleum Safety and Environmental Management Authority*. Analysis from the 2014 *Report on Government Services* was drawn on in Audit Report No. 21, *Pilot Project to Audit Key Performance Indicators*. Audit Report No. 16, *Administration of the Smart Grid, Smart City Program*, drew on findings and recommendations in the Commission's 2013 *Inquiry into Electricity Network Regulatory Frameworks*. *Overcoming Indigenous Disadvantage* reports from various years were used in Audit Report No. 15, *The Indigenous Land Corporation's Administration of the Land Acquisition Program*. The Commission's 2002 report on *Cost Recovery in Government Agencies* was used in Audit Report No. 9, *Determination and Collection of Financial Industry Levies*.

**Table B.1 Some examples of the use of Commission publications in parliamentary committee and Parliamentary Library reports in 2013-14**

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Foreign Affairs, Defence and Trade Legislation Committee, Fair Trade (Workers' Rights) Bill 2013, March 2014	Research Report, Bilateral and Regional Trade Agreements, December 2010
Senate Rural and Regional Affairs and Transport Legislation Committee, Beef Imports: First Report, July 2013	Research Report, Impact of Foot and Mouth Disease in Australia, June 2002
<i>Parliamentary Library output 2013-14</i>	
Asset Recycling Fund Bill 2014 [and] Asset Recycling Fund (Consequential Amendments) Bill 2014, Bills Digest No 90, 2013-14	Draft Inquiry Report, Public Infrastructure, March 2014
Australian Government spending on irregular maritime arrivals and counter-people smuggling activity, Research Paper, September 2013	Steering Committee for the Review of Government Service Provision, Report on Government Services 2011, January 2011
Media reform: in shallows and miseries, Research Paper, October 2013	Inquiry Report, Broadcasting, April 2000
Foreign investment in Australian agriculture, Research Paper, February 2014	Inquiry Report, Rural Research and Development Corporations, June 2011
Resource development and landholders' rights: a quick guide, Research Paper, March 2014	Draft Inquiry Report, Mineral and Energy Resource Exploration, May 2013
Major superannuation and retirement income changes in Australia: a chronology, Research Paper, March 2014	Inquiry Report, Default Superannuation Funds in Modern Awards, October 2012
Customs Amendment (Anti-Dumping Commission Transfer) Bill 2013, Bills Digest No. 31, 2013-14	Inquiry Report, Australia's Anti-Dumping and Countervailing System, May 2010
Intellectual Property Laws Amendment Bill 2013, Bills Digest No. 7, 2013-14	Inquiry Report, Compulsory Licensing of Patents, March 2013
Paid Parental Leave Amendment Bill 2014, Bills Digest No. 66, 2013-14	Inquiry Report, Paid Parental Leave, May 2009
Agricultural and Veterinary Chemicals Legislation Amendment (Removing Re-approval and Re-registration) Bill 2014, Bills Digest No 93, 2013-14	Research Report, Chemicals and Plastics Regulation, August 2008

## 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 2013-14. Appearances by the Chair, Deputy Chair and senior staff before the Senate Standing Committee on Economics

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occurred on 20 November 2013, 26 February 2014 and 12 June 2014. Hansard of the appearances is available on the Parliament of Australia website.

## Other evidence

In addition to the performance indicators for 2013-14 referred to in chapter 1 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In welcoming the announcement of the inquiry into childcare and early childhood learning in November 2013, the Prime Minister, the Hon. Tony Abbott, stated that the Commission:

... has done magnificent work on a whole range of subjects... there is no better body to look at it than the Productivity Commission. (Abbott 2013)

- When discussing the Commission's report on regulator engagement in October 2013, the Minister for Small Business, the Hon. Bruce Billson, said:

The Commission's report represents a significant body of work that can inform broader work on deregulation. (Billson 2013)

- In the lead up to the 2013 Federal election, the Coalition proposed that the Commission be asked to undertake a number of studies and inquiries, including a review of child care arrangements; a review of passenger motor vehicle manufacturing industry support; an inquiry into Tasmanian shipping costs; an inquiry into industrial relations arrangements and the Fair Work Act; and an inquiry to examine possible means to attract more private funding into high priority infrastructure projects.

- In discussing the National Disability Insurance Scheme in July 2014, the Leader of the Opposition, the Hon. Bill Shorten, stated that:

... with a comprehensive policy formulation process that drew on the detailed work of the Productivity Commission and sector experts, we were able to make the economic case for reform. (Shorten 2014)

- The release of the Commission's draft report on public infrastructure, in March 2014, was welcomed by a range of organisations, including the Urban Development Institute of Australia, the Australian Industry Group, the Association of Superannuation Funds of Australia and Industry Super Australia.
- During the year COAG identified several further areas where Commission projects would assist it with its work. Specific projects undertaken to assist policy development across jurisdictions in 2013-14 included a study of major project development assessments to assist the work of the COAG Business Advisory Forum, and a study of regulator engagement with small business to assist the work of the COAG Business Regulation and Competition Working Group (BRCWG).

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- In May 2014 a report by the Australia Institute and Australia21 called for a Commission inquiry into the impact of inequality on economic efficiency and growth. (Douglas, Friel, Denniss and Morawetz 2014)
  - In June 2014, Wesfarmers called for an annual report by the Commission on competition policy reform and review. (Wesfarmers 2014)
  - In February 2014, Mr Ian McCauley, Adjunct Lecturer at the University of Canberra, stated that:

My observations on good process come from observing bodies like the Productivity Commission. (Senate Select Committee into the Abbott Government's Commission of Audit 2014, pp. 11-12).
  - In March 2014, Senator Nick Xenophon called for the Commission to be required to produce an annual report on private health insurance funds and changes to the composition of people that are fund members.
  - Infrastructure Partnerships Australia produced a discussion paper in March 2014 that called on the Treasurer to direct the Commission to establish a detailed public inquiry into the funding, regulation and pricing of Australia's road transport market, and related impacts in the broader transport market. (Infrastructure Partnerships Australia 2014)
  - Murray Valley Winegrowers called for a Commission inquiry into the Australian wine industry in February 2014. (Malcolm 2014)
  - The Australian Competition and Consumer Commission recommended in June 2014 that the Commission be asked to conduct a comprehensive review of Australia's intellectual property arrangements. (ACCC 2014)
  - The Institute of Chartered Accountants Australia suggested in July 2013 that the Commission be tasked with developing a list of priorities that boost innovation in the Australian economy. (ICAA 2013)
  - The Australian Greens proposed in November 2013 that the Commission be asked to conduct a review of rental assistance. (Ludlam 2013)
  - In its submission to the Competition Policy Review, the New South Wales Government proposed that the Commission:
    - should be tasked with determining the growth and revenue impacts of any future reform package to inform an agreement on financial incentives, taking into account adjustment and distributional issues
    - be asked to prepare a five-yearly report on Australia's productivity performance, factors impeding productivity growth (including impediments to competition), and the future direction for productivity-enhancing reform. (New South Wales Government 2014)
  - A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews of the Qantas Sale Act;

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the regulation of road use by bikes; departmental functions and programs; the fiscal performance of Australian governments using scorecard indicators; corporate welfare; and fees and charges in public health.

- The Minerals Council of Australia called in February 2014 for the Commission to be tasked with undertaking an inquiry into coastal shipping arrangements. (Minerals Council of Australia 2014)
- General endorsement of the Commission's role and work can also be found in various proposals for new agencies that have similar roles. For example:
  - The Norwegian Government announced in November 2013 that it was establishing a Productivity Commission to advise it on how to strengthen growth in the Norwegian economy. (Norwegian Ministry of Finance 2013)
  - In January 2014, the Indian Council for Research and International Economic Relations called for the establishment of a National Productivity Commission, focused on productivity-based growth across all sectors of the Indian economy, including services and agriculture. (Raj 2014)
  - Accounting firm Ernst and Young called in June 2014 for the formation of an independent tax reform commission, modelled on the Productivity Commission and the Australian Law Reform Commission, to provide advice on tax reform proposals and to 'stand above self-interest and facilitate the required degree of consensus'. (Ernst and Young 2014, Uren 2014)

## COAG review of the Report on Government Services

COAG agreed in 2009 to a review of the *Report on Government Services* (RoGS), to be undertaken by a combined Senior Officials and Heads of Treasuries Working Group. COAG endorsed the view that the review was the key tool to measure and report on the productive efficiency and cost effectiveness of government services.

COAG endorsed new terms of reference for the Steering Committee and RoGS in April 2010. The Steering Committee reports to COAG on its operations triennially, with the first report provided in September 2012.

## Review of the Overcoming Indigenous Disadvantage: Key Indicators report

In 2012, the Productivity Commission, in its role as Secretariat for the Review of Government Service Provision, commissioned the Australian Council of Educational Research to conduct a review of the *Overcoming Indigenous Disadvantage* report. The review included consultation with governments, Indigenous organisations and research bodies, using a mix of face-to-face meetings and forums, telephone interviews and surveys. The review found a positive view of the report and identified a number of opportunities to strengthen it. The final review report was placed on the Commission's website in late 2012.

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The Steering Committee published a set of proposed responses to the review recommendations in early 2013. Following consultations with governments, Indigenous organisations and research bodies in mid-2013, the Steering Committee published a set of final responses to the review recommendations in January 2014. These final responses have informed the next edition of the report, anticipated for release in late 2014.

## **Government-commissioned projects**

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

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

All government-commissioned inquiries in 2013-14 were conducted by the Commission in accordance with statutory processes which set requirements for public hearings, submissions and the use of economic models.

### **Activities in 2013-14**

The Commission had ten public inquiries and five commissioned research studies underway at some time during the year. The program of government-commissioned projects is summarised in table 1.1, although the varying complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2013-14 the Commission:

- completed four inquiries commenced in 2012-13 — on mineral and energy resource exploration, the national access regime, and two inquiries into whether safeguard action is warranted against imports of processed tomato products and processed fruit products
- commenced a further five new public inquiries during the year, on Australia's automotive industry, public infrastructure, child care and early childhood learning, Tasmanian shipping and natural disaster funding.

Research studies commissioned by the Government were also a significant component of the Commission's workload again in 2013-14 (figure 2.1). During the year the Commission:

- finalised three research studies commenced in the previous year on: regulator engagement with small business, major project development assessment processes, and geographic labour mobility
- received requests during the year to conduct research studies on the costs of doing business in the dairy manufacturing and retail trade industries major project development assessment processes, regulator engagement with small business and geographic labour mobility.

Trends in public inquiry activity and participation over the past five years are shown in table B.2. Information on individual projects is provided in appendix D.

**Table B.2 Public inquiry and other commissioned project activity, 2009-10 to 2013-14**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Public inquiries</b>					
Inquiry references received	4	3	5	5	5
Issues papers released	4	3	4	3	8
Public hearings (sitting days) <sup>a</sup>	28	45	16	11	35
Organisations/people visited	261	361	152	205	441
Submissions received	609	2397	566	258	1674
Draft reports <sup>b</sup>	4	4	5	4	6
Inquiry reports completed	3	3	5	4	7
Inquiries on hand (at 30 June)	4	4	9	5	3
<b>Research studies</b>					
References received	5	4	5	3	2
Submissions received	483	352	590	180	154
Draft reports <sup>b</sup>	11	3	4	2	3
Research reports completed	7 <sup>c</sup>	4	4	3	3
Studies on hand (at 30 June)	5	3	4	3	2
<b>Total references</b>					
Total references received	9	7	10	8	7
Total references completed	9	7	8	7	10
Total references on hand (at 30 June)	9	7	7	8	5

<sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> Includes all types of draft reports. <sup>c</sup> Total includes two final reports completed as part of the study on business regulation benchmarking.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the ten inquiries and government-commissioned research studies completed in 2013-14 are shown in table B.3.

**Table B.3 Cost of public inquiries and other commissioned projects completed in 2013-14<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Mineral and Energy Resource Exploration	1 504
National Access Regime	1 338
Safeguards Inquiries (Processed Fruit and Processed Tomato Products)	543
Australia's Automotive Manufacturing Industry	1 106
Public Infrastructure	1 726
Tasmanian Shipping and Freight	617
Regulation Benchmarking: Regulator Engagement with Small Business	1 123
Major Project Development Assessment Processes	1 544
Geographic Labour Mobility	1 700

<sup>a</sup> 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. Comparisons of these costs for the period 2009-10 to 2013-14 are shown in table B.4.

**Table B.4 Direct administrative expenditure on public inquiries and other government-commissioned projects<sup>a</sup>, 2009-10 to 2013-14**

<i>Expenditure item</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	526	667	523	444	434
Printing	212	183	223	87	110
Consultants	27	28	20	28	12
Other <sup>b</sup>	526	942	242	256	268
<b>Total</b>	<b>1 291</b>	<b>1 820</b>	<b>1 008</b>	<b>815</b>	<b>824</b>

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

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

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## Consultative processes

The practice of consulting widely during inquiries and government-commissioned research projects continued in 2013-14, encompassing government departments and agencies, professional and industry organisations, academics and the broader community.

In the course of its inquiry work over the year, the Commission held 35 public hearings, visited more than 440 individuals and organisations and received more than 1670 submissions.

The Commission actively encourages public participation in its inquiry work and continues to develop mechanisms to facilitate this. For example:

- In undertaking its study of geographic labour mobility, for example, Commissioners and staff met with stakeholders across Australia, visiting every capital city. Given the study covered issues affecting regional areas (particularly mining communities), Commissioners and staff also visited Newcastle, Moranbah (Queensland) and the Pilbara. Pre-draft and post-draft roundtables were held in Melbourne and Canberra, and a public forum was held on the Gold Coast. The public forum, held in Surfers Paradise and advertised in the Gold Coast Bulletin, provided an opportunity to get a local perspective on issues and receive valuable feedback from the public on the key points from the draft report.
- In conducting its current inquiry on childcare and early childhood development, the Commission used a wide range of approaches to consultation. Following receipt of the terms of reference on 22 November 2013, an initial circular advertising the inquiry was distributed to several hundred government representatives, industry organisations and individuals and the inquiry was advertised in national and metropolitan newspapers and in all state and territory regional newswire services. 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. There were 464 formal submissions also received by the Commission prior to the release of the draft report. In addition, the Commission met with a large number of stakeholders, including business groups, academics and government agencies. The Commission also held roundtables on Childcare and Workforce Participation and on Early Childhood Development with representatives from various academic institutions and research bodies. On the release of its draft report in July 2014, the Commission also used a series of short YouTube clips to outline its approach and key recommendations.

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

The Commission increasingly uses internet based platforms to increase the accessibility of its reports and to facilitate speedier and easier notification of developments in inquiries and studies. On-line registration facilitates people notifying their interest in specific inquiries

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and studies and being kept informed of developments. In particular, participants' submissions to inquiries and studies and transcripts of hearings (other than confidential information) are placed on the Commission's website.

Internet access has also increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 192 000 external requests for the index pages to submissions for inquiries and commissioned studies current in the year to 30 June 2014. In 2013-14 the Commission also continued posting regular updates on its activities on Twitter.

### **Quality indicators**

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

The roundtables and workshops convened during the course of inquiries and government-commissioned research studies, noted above, also contributed to the Commission's quality assurance processes.

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

### **Timeliness**

The ten inquiries and commissioned research studies finalised in 2013-14 were all completed on or ahead of schedule.

### **Indicators of usefulness**

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

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## Government responses

The Commission's impact on policy making is revealed most directly through government responses to, and decisions on, its reports. During the year, the Australian Government announced the following decisions on Commission reports.

- On 9 May 2014 the Australian and New Zealand Governments released a joint response to the report by the Australian and New Zealand Productivity Commissions on strengthening economic relations between the two countries (Australian Government and New Zealand Government 2014). Of the 32 recommendations made in the report, the Government response listed 25 recommendations that received joint support, support in-part or that were being addressed under existing government arrangements. Seven recommendations were deemed as requiring further consideration.

A recommendation on the mutual recognition of imputation credits will be considered as part of the White Paper on taxation, as already announced. Also the Commission's report recommended 5 yearly reviews of the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) to take stock of what has been achieved and learnt and to ensure that the agenda remains relevant and forward looking. The governments' response states that they will, ahead of the 2015 Leaders' meeting, consider how to progress the five-yearly reviews of CER, including identifying opportunities for further collaboration between the productivity commissions.

- On 28 May 2014, the Australian Government released an interim response to the Commission's report on minerals and petroleum resource exploration (Australian Government 2014a). The response stated:

Of the 22 recommendations, the Commonwealth has implemented six through previous processes; agreed five; provisionally agreed four; and noted seven. This forms the Commonwealth's interim response. The interim response is being tabled in order to commence negotiations with the states and Northern Territory; a final response will be tabled within 24 months. (Australian Government 2014a, p. 2)

The recommendations agreed to by the Commonwealth included endorsement of the National Offshore Petroleum Safety and Environmental Management Authority's (NOPSEMA's) process to assess environmental approvals; strengthened bilateral arrangements with the States and Territories for assessments; undertaking and publishing a review of the benefits and costs of the 'water trigger' amendment to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth); and setting regulatory requirements relating to exploration that are proportionate to impacts and risks.

- The Australian Government released a response to the Commission's report on automotive manufacturing on 26 August 2014. The response 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

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United Nations Regulations; and to abolish Australian Government fleet procurement policies that favour the purchase of locally-made vehicles.

Governments have not always agreed with or accepted the Commission's advice, at least initially. Nevertheless, as reported in earlier Annual Reports, a review of Commission inquiries shows that governments adopt a substantial majority of recommendations and generally endorse its findings. Further, an assessment of the nature and extent of references made to material in the Commission inquiry reports suggests that those reports have materially contributed to policy debates in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

### Website and media coverage

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

- In the 12 months to June 2014 there were more than 192 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2013-14. The projects of most interest were childcare (29 171 requests), public infrastructure (23 538 requests), access to civil justice (27 832 requests) and automotive manufacturing (24 647 requests). Other heavily accessed web pages were for the 2013 and 2014 *Report on Government Services* (24 652 and 32 096 requests, respectively) and the 2011 *Overcoming Indigenous Disadvantage: Key Indicators* report (12 047 requests). Speeches by the Commission's Chair attracted more than 18 900 requests over the year.
- Inquiry and commissioned research reports typically receive wide media coverage. During 2013-14, 28 editorials in major metropolitan newspapers drew on the findings or recommendations in 11 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on infrastructure, trade agreements, automotive manufacturing and childcare featured prominently.
- Inquiries current in 2013-14 continued to receive significant coverage in the print and broadcast media during the year. Coverage of the Commission's inquiries into the automotive industry and import safeguards received a significant share of total mentions.

### Invited presentations

A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues is the 84 invitations the Commission accepted in 2013-14 to present papers on inquiries and commissioned studies to business, community and other groups (table E.1).

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## **Performance reporting and other services to government bodies**

At the request of the Government, the Commission undertakes a number of major activities in this output group. It provides secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of the annual Report on Government Services; the regular Overcoming Indigenous Disadvantage report; the two yearly Indigenous Expenditure Report; and the collation of performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council (CRC). The CRC was abolished in June 2014 and the ongoing roles of the Commission and the Steering Committee under the IGA are still to be determined.)

### **Activities in 2013-14**

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

- Report on Government Services 2014, seven volumes (and supporting tables) released electronically on the PC website (January 2014)
- Report on Government Services 2014: Indigenous Compendium (April 2014)
- National Agreement performance information 2012-13: National Healthcare Agreement (December 2013)
- National Agreement performance information 2011-12: National Affordable Housing Agreement (December 2012)
- National Agreement performance information 2011-12: National Disability Agreement (December 2012)
- National Agreement performance information 2012-13: National Indigenous Reform Agreement (December 2013)
- National Agreement performance information 2012-13: National Affordable Housing Agreement (December 2013)
- National Agreement performance information 2012-13: National Disability Agreement (December 2013)
- National Agreement performance information 2013: National Agreement for Skills and Workforce Development (April 2014)
- National Agreement performance information 2013: National Education Agreement (April 2014).

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## Review of Government Service Provision

Heads of Government (now COAG) established the Review of Government Service Provision (the Review) to provide information on the equity, efficiency and effectiveness of government services in Australia.

In 2009, COAG endorsed the findings and recommendations of a high level review of RoGS. COAG recognised the RoGS as ‘the key tool to measure and report on the productive efficiency and cost effectiveness of government services’ and in 2010 agreed to a new terms of reference and charter of operations for the Review, as well as a new terms of reference for the RoGS ([www.pc.gov.au/gsp/review/tor](http://www.pc.gov.au/gsp/review/tor); COAG 2010).

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

In November 2008, COAG endorsed the Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, the Steering Committee has ‘overall responsibility for collating the necessary performance data’ required for the COAG Reform Council to undertake its assessment, analytical and reporting responsibilities.

In February 2011, COAG transferred responsibility for the Indigenous Expenditure Report from a separate IER Steering Committee (for which the Productivity Commission provided Secretariat support) to the Steering Committee for the Review of Government Service Provision (for which the Productivity Commission also provides support).

### *Report on Government Services*

The nineteenth Report on Government Services was released in January 2014. The Report focuses on the equity, effectiveness and efficiency of government service provision.

Reporting is an iterative process. Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Since the first Report was published in 1995, there have been significant advances in both the scope of reporting and the quality and comprehensiveness of data.

Developments in the 2014 RoGS include restructuring the Report into seven separate volumes, redrafting the introductory chapters on the Report’s approach to performance measurement, implementing a new approach to identifying the ‘completeness and comparability’ of indicators and measures, expansion of time series reporting in many chapters and inclusion of additional data quality information (DQI) for many indicators.

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- Some service-specific improvements in the 2014 Report include: early childhood education and care
    - new and revised preschool performance indicators and measures reported using the National Early Childhood Education and Care Collection
    - inclusion of a new indicator ‘achievement of the *National Quality Standard*’ and seven supporting measures, using quality ratings data from the Australian Children’s Education and Care Quality Authority
  - school education
    - reporting outcomes of the 2012 year 6 Science literacy National Assessment Program
    - reporting outcomes of the 2012 Programme for International Student Assessment (PISA) for reading literacy, mathematical literacy and scientific literacy performance.
    - reporting outcomes of the 2011 year 4 Progress in International Reading Literacy Study
  - vocational education and training
    - reporting additional data on VET graduates with improved employment and education/training status after training
  - fire and ambulance services
    - reporting for the first time on the ambulance event indicators ‘triple zero (000) call answering time’ and ‘pain management’
    - reporting a new fire events measure, value of insurance claims from fire events (sourced from the insurance industry)
  - public hospitals
    - reporting for the first time ‘Emergency department waiting times’ and ‘Elective surgery waiting times’ by socioeconomic status
    - reporting a new measure ‘Presentations to emergency departments with a length of stay of 4 hours or less ending in admission’
    - reporting ‘Selected hospital procedures’ by Indigenous status, remoteness and socioeconomic status
    - reporting a new maternity services indicator ‘Instrumental vaginal births’
  - primary and community health
    - reporting for the first time on PBS expenditure on medicines supplied under s.100 of the National Health Act 1953 [Cwlth] to remote Aboriginal Medical Services
    - reporting for the first time on government expenditure on dental services by state and territory

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- reporting on episodes of treatment for alcohol and other drugs
  - reporting for the first time on Australian Government expenditure on Indigenous primary healthcare services
  - reporting for the first time on the availability of public dental hygienists (complementing existing reporting on public dentists and dental therapists)
  - updating the Australian geographical location classification system for reporting Medicare data on:
    - ... PBS expenditure per person by region
    - ... availability of general practitioners (GPs) by region
    - ... GP bulk billing rates by region
    - ... GPs with vocational registration by region
    - ... proportion of practices registered for the Practice Incentives Program (PIP) using electronic health systems by region
  - reporting for the first time age-standardised data for ‘use of pathology tests and diagnostic imaging’ and ‘cost to government of general practice per person’
  - expanding reporting on ‘number of filled prescriptions by GPs for selected antibiotics’ (previously reported for concession card holders only)
  - reporting for the first time on the proportion of people with diabetes with HbA1c (glycosolated haemoglobin) below 7 per cent
  - mental health management
    - including a case study on how follow up community care can influence psychiatric inpatient hospital readmission
    - adding a new indicator on seclusion events to the framework — the first safety indicator to be included
    - replacing ‘average cost per three month community care period’ with ‘average cost per community treatment day’ to provide a better measure of unit costs
    - revising ‘services reviewed against the National Standards’ indicator to weight the results for expenditure, to provide a better understanding of the share of activity covered by the different assessment levels
  - aged care
    - reporting additional data on the proportion of all re accredited services that are three year accredited
  - youth justice services
    - reporting for the first time on ‘cost per young person subject to community based supervision’ and ‘cost per young person subject to detention based supervision’

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- inclusion of new outcome indicator concepts on ‘secure housing’, ‘education and employment readiness’, and ‘repeat offending’
  - social housing
    - inclusion of new and revised contextual information for community housing
  - homelessness services
    - revision of most 2011–12 Special Homelessness Services Collection data to improve comparability with data for 2012-13
    - improvements to data quality for the ‘access of special groups to homelessness services’ indicator.

The Review continues efforts to improve reporting on the provision of mainstream services to Indigenous Australians. The Indigenous Compendium to the Report, released in April 2014, provides an easily accessible collation of all Indigenous data from the Report.

#### *Overcoming Indigenous Disadvantage: Key Indicators*

In 2002, COAG commissioned a regular report on key indicators of Indigenous disadvantage, ‘to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council’s commitment to reconciliation through a jointly agreed set of indicators’ (COAG Communiqué, 5 April 2002). In March 2009, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference requested the Steering Committee to align the OID framework with COAG’s six high level targets for Closing the Gap in Indigenous outcomes.

The 2011 edition of the OID report was released in August 2011. It showed that many Aboriginal and Torres Strait Islander Australians had shared in Australia’s recent economic prosperity, with increases in employment, incomes and home ownership. There were also improvements in some education and health outcomes for Aboriginal and Torres Strait Islander children. However, even where improvements have occurred, Aboriginal and Torres Strait Islander Australians continued to have poorer outcomes on average than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Aboriginal and Torres Strait Islander Australians have been deteriorating.

Following the release of the 2011 report, the Productivity Commission engaged the Australian Council for Educational Research to carry out a review of the report, including extensive consultations with government agencies, researchers and Aboriginal and Torres Strait Islander organisations across Australia. The review found widespread support for the report, and identified areas for improvement for future reports (ACER 2012). The Steering Committee published its proposed responses to the review recommendations on the PC website. The proposed actions formed the basis of consultations with external stakeholders in mid-2013. The Steering Committee considered the stakeholder feedback and finalised its

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responses to the review recommendations in late 2013, with its final responses published on the Review website in January 2014. These responses have influenced the next edition of the report, anticipated to be released in late 2014.

### *Indigenous Expenditure Report*

In 2007, COAG agreed to the reporting of Indigenous expenditure. The Productivity Commission assumed secretariat responsibilities from November 2008. A Stocktake Report, including terms of reference for the report and a high level overview of the intended method and future development process, was endorsed by COAG in July 2009.

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. The IER is supported by companion manuals that document in detail the methods, data sources and interpretation issues underpinning the estimates.

In February 2011, COAG transferred responsibility for the Indigenous Expenditure Report to the Steering Committee for the Review of Government Service Provision. The Productivity Commission continues to provide secretariat services for *Indigenous Expenditure Report*, through its support of the Review Steering Committee.

The second Indigenous Expenditure Report was released on 4 September 2012, with estimates for 2008-09 and 2010-11.

The 2014 *Indigenous Expenditure Report* will be released in December 2014, with expenditure estimates for each level of government, Australia as a whole, and by State and Territory, for three financial years (2008-09, 2010-11 and 2012-13).

## **Quality indicators**

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

The Commission's work for the Review of Government Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chair of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 14 national working groups comprising representatives from over 80 government agencies. It also draws on the expertise of bodies such as the ABS and the Australian Institute of Health and Welfare (AIHW), committees established under Standing Councils and other service-specific parallel exercises.

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The Review has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage* report. Following the release of the 2011 report, the Productivity Commission engaged the Australian Council for Educational Research to carry out a review of the report including extensive consultations with government agencies, researchers and Indigenous organisations across Australia.

## **Timeliness**

In 2013-14, the 2014 Report on Government Services and its Indigenous Compendium, six National Agreement reports and four National Partnership reports to the COAG Reform Council were completed on time.

## **Indicators of usefulness**

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

### **Report on Government Services**

The key task of the Report on Government Services (RoGS) is to provide information on the equity, effectiveness and efficiency of government services. The RoGS is used extensively in this regard, for example in 2013-14:

- There were 51 mentions of performance information sourced to the 2014 (and earlier) editions of the Report in parliamentary proceedings by government and opposition members in Federal and State parliaments.
- RoGS was cited in both Australian and overseas academic publications, across a range of service areas including: *Australian Journal of Public Administration* (general RoGS); *International Journal of Information and Education Technology* (child care and education); *Australian and International Journal of Rural Education* (school education); *PLoS ONE* (health); *Australasian Journal on Ageing* (aged care); *Issue Analysis*, and *Australian Journal of Social Issues* (child protection).
- RoGS' data and information are also used by other researchers in reports: for example, data on non-government school funding were used by Australian Curriculum, Assessment and Reporting Authority in National Report on Schooling in Australia 2011 (2013); the Australian Parliamentary Library publication (May 2014) *Universal access to early childhood education: a quick guide* identifies the scope of early childhood education data included in RoGS; RoGS 2014 cited in various submissions to the Productivity Commission Inquiry into Child Care and Early Childhood Learning; data on government and non-government school funding were used in the Centre for Independent Studies 2014 publication *School Funding on a Budget* (2014); data on child care and school attendance, basic community care, aged care places and funding arrangements, the interaction between the health system and the aged care system,

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housing affordability and public housing dwelling condition were used in the Australian Institute of Health and Welfare's (AIHW) Australia's Welfare 2013 report (July 2013); data on total cost per casemix adjusted separation (recurrent cost plus Secretariat estimates of capital costs per casemix adjusted separation) were used in the AIHW's Australian Hospital Statistics (2012-13) and financial data in Health Expenditure Australia 2011-12 (September 2013); Victorian Auditor-General Residential Care Services for Children (March 2014) and Accessibility of Mainstream Services for Aboriginal Victorians (May 2014); data on police services were used in the ABC's Speaking up about violence against women and children 7.30 Report ACT (April 2014) and in the Institute of Public Affairs Bureaucracy Overload report (May 2014); Australian Council of Social Service's Submission to the Senate Select Committee Inquiry into the Abbott Government's Commission of Audit (February 2014); Australian National Audit Office's Pilot Project to Audit Key Performance Indicators (February 2014); Australian Petroleum Production & Exploration Association Inquiry into Microeconomic Reform in WA (June 2014); data and information on early childhood education and care services and out-of-home care services was used by the Victorian Parliamentary Family and Community Development Committee in its Betrayal of Trust - Inquiry into the Handling of Child Abuse by Religious & Other Non-Government Organisations (3 December 2013); health data are used in Consumers Health Forum of Australia, Empty Pockets - Why Co-payments are not the solution (March 2014); data on corrective services are used in the NSW Law Reform Commissions Sentencing report (July 2013); data on Indigenous people are used in Reconciliation Australia's Economic benefits of closing the gap in Indigenous employment outcomes (January 2014); data on homelessness funding were used by the Australian Housing and Urban Research Institute in The cost of homelessness and the net benefit of homelessness programs (December 2013); data on social housing dwellings were cited in Appendix Volume 1 of the National Commission of Audit (March 2014); data on the cost of providing assistance per dwelling for public housing were used in the NSW Auditor-General's Report, Performance Audit, Making the best use of public housing and in that report, RoGS is noted as giving more performance information relevant to NSW legislative objectives than the Housing NSW annual report (July 2013).

Other indicators of usefulness from 2013-14 were:

- high levels of demand, with more than 66 000 requests for RoGS (various editions) on the Commission's website in 2013-14. Earlier editions also continued to be accessed from the website
- extensive media coverage, with at least 253 publically available items, including 159 press articles drawing on RoGS.

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## Overcoming Indigenous Disadvantage: Key Indicators

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

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

The Productivity Commission engaged the Australian Council for Educational Research to review the Overcoming Indigenous Disadvantage report in 2012, including extensive consultation with governments, Indigenous organisations and researchers. Overall, stakeholders had a positive view of the report and its usefulness but suggested that it could be further enhanced by focusing more on strengths and making clearer the involvement of Aboriginal and Torres Strait Islander Australians in its development (ACER 2012).

## Indigenous Expenditure Report

The main purpose of the Indigenous Expenditure Report is to provide information on government expenditure on Indigenous-specific and mainstream services for Indigenous Australians.

In May 2013, the Steering Committee and secretariat commenced a series of consultations on the Indigenous Expenditure Report. Policy makers, researchers and Aboriginal and Torres Strait Islander organisations noted that they found the Indigenous Expenditure Report and its accompanying data useful, but requested additional disaggregation of data (such as disaggregation by remoteness areas or between overheads and direct service delivery). Many of the additional data of interest to readers are not currently collected by governments but the Secretariat, in conjunction with the IER Working Group, will consider options for improving future reporting with jurisdictional support.

The 2012 Indigenous Expenditure Report was cited by:

- the chair of the Australian Government’s Indigenous Advisory Council in several statements and interviews in 2013
- Deloitte Access Economics in their report for Reconciliation Australia in 2014, Economic Benefits of Closing the Gap in Indigenous Employment Outcomes.

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## National Agreement reporting

Under the Intergovernmental Agreement on Federal Financial Relations, the Steering Committee has ‘overall responsibility for collating the necessary performance data’ for National Agreements [para C5(b)]. 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’ [para C12].

The Commonwealth budget (handed down in May 2014) stated that the CRC would cease operations from 30 June 2014, and the Department of the Prime Minister and Cabinet (PM&C) would have an ongoing monitoring role in relation to the NAs. The roles of the Commission and the Steering Committee under these changed arrangements are still to be determined.

## Competitive neutrality complaints activities

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

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

The AGCNCO aims to finalise most investigations and report to the Assistant Treasurer within 90 days of accepting a complaint although this is dependent, in part, on the timely co-operation of parties related to the complaint. The Office also aims to undertake reporting and associated activities that are of a high standard and useful to government.

## Activities in 2013-14

### Complaints activity

The AGCNCO received one formal complaint during 2013-14 (table B.5). It also received a number of inquiries that involved investigative work to determine whether a formal investigation of the complaint should be undertaken. Details of the complaint received, including the action taken, are reported in appendix C.

**Table B.5 Formal competitive neutrality complaints, 2009-10 to 2013-14**  
 subtitle

<i>Activity</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
Written complaints received	0	6	4	1	1
Action:					
New complaints formally investigated	–	3 <sup>a</sup>	1	–	–
Complaints investigated but not proceeding to full report <sup>b</sup>	–	3	1	1	1
Complaints not investigated	–	–	2 <sup>d</sup>	–	–
Reports completed	–	–	2	–	–
Complaints on hand (30 June)	–	4 <sup>c</sup>	–	–	–

<sup>a</sup> These three complaints related to the same matter — the pricing and expected rate of return of NBN Co — and were investigated and reported on (in 2011-12) jointly. <sup>b</sup> Includes: complaints subject to preliminary investigation but for which no prima facie evidence of a breach of competitive neutrality policy was found; and complaints investigated and resolved through negotiation. <sup>c</sup> Includes three complaints relating to the same matter (NBN Co) plus one not proceeding to a full report. <sup>d</sup> The complaints did not relate to an Australian Government business.

## Advice on the application and implementation of competitive neutrality

An important role of the AGCNCO is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2013-14, the AGCNCO provided advice around twice a week, on average, to government agencies or in response to private sector queries either over the telephone or in ad hoc meetings.

The AGCNCO provides advice on all aspects of the implementation of competitive neutrality. Over the past year, in response to requests, the Office provided advice to a number of agencies implementing competitive neutrality policy into their business activities.

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

## Quality indicators

Competitive neutrality complaint investigations and reporting engage the complainant, the government business in question, the competitive neutrality policy arms of the Australian Government and, as required, the government department within whose policy purview the

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business resides. The generally favourable feedback from all these parties on the integrity of the process and the usefulness of its outcomes — given that the AGCNCO’s reports assess competing interests — is the strongest evidence of the quality of the AGCNCO’s work.

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

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

### **Timeliness**

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

Formal investigations can require the Office to request significant amounts of information from complainants and the government business subject to complaint and, in some instances, extended periods of consultation. The timely co-operation of parties relevant to the complaint can also be variable. In these situations the Office is not always able to meet a 90-day time limit on formally reporting on complaints.

### **Indicators of usefulness**

The AGCNCO circulates its reports and research to State and Territory government agencies responsible for competitive neutrality policy and complaint investigations to facilitate the exchange of information and to share procedural experiences. Feedback from those agencies indicates that the AGCNCO makes a valuable contribution to the effective implementation of nation-wide competitive neutrality policy.

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

The AGCNCO continues to receive a range of informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments continue to be received from government and private sector agencies on the usefulness of two AGCNCO publications — on cost allocation and pricing, and rate of return issues — in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand and use.

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During 2013-14 there were close to 7500 external requests to the website for AGCNCO investigation reports and research publications.

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

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

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

### **Activities in 2013-14**

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

- A Commission Research Paper on an ageing Australia
- research to meet the Commission's annual reporting obligations, comprising
  - its annual report for 2012-13, tabled in Parliament on 29 October 2013, which focused on using administrative data to achieve better policy outcomes
  - a companion publication on trade and assistance issues, released in 27 June 2014
  - a productivity update, released in April 2013
- the Richard Snape Lecture, *Creating a Learning Society*, delivered on 23 June 2014 by Professor Joseph Stiglitz of Columbia University
- Staff Working Papers on deep and persistent disadvantage in Australia, transition pathways in education and the labour market, environmental policy analysis and literacy and numeracy skills
- A Staff Research Notes on input-output tables
- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website

- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The research publications produced in the supporting research program in 2013-14 are listed in box B.3. Research projects underway at 30 June 2014 are shown in box B.4.

**Box B.3 Supporting research and annual reporting publications, 2013-14**

**Annual report suite of publications**

Annual Report 2012-13

Trade & Assistance Review 2012-13

Productivity Update 2014

**Commission Research Papers**

An Ageing Australia: Preparing for the Future

**Staff working papers**

Deep and Persistent Disadvantage in Australia

Prevalence of Transition Pathways in Australia

Productivity in Manufacturing: Measurement and Interpretation

Environmental Policy Analysis: A Guide to Non-Market Valuation

Literacy and Numeracy Skills and Labour Market Outcomes in Australia

**Staff research notes**

On Input-output Tables: uses and abuses

**2014 Richard Snape Lecture**

Creating a Learning Society (Joseph Stiglitz)

**Richard Snape Lectures**

The presentation by Professor Joseph Stiglitz from Columbia University was the twelfth in a series of public lectures in memory of Professor Richard Snape, the former Deputy Chair of the Commission, who died in October 2002. The series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience. Previous lectures have been delivered by Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006), Martin Wolf (associate editor and chief economics commentator at the Financial Times), Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles), Patrick Messerlin (Director, Groupe d'Economie Mondiale, Institute d'Etudes Politiques de Paris), Vittorio Corbo (Governor of the Central Bank of Chile, 2003–2007), Professor Yu Yongding (Professor and former Director-General of the

Institute of World Economics and Politics at the Chinese Academy of Social Sciences in Beijing), Dr Mari Pangestu, Indonesia's Minister for Trade, Dr Roberto Newell (a former senior partner at McKinsey and the inaugural President of the Mexican Institute for Competitiveness), Pascal Lamy (Director-General of the World Trade Organization), and Arvind Panagariya (Professor of Economics and Jagdish Bhagwati Professor of Indian Political Economy at Columbia University).

**Box B.4 Supporting research projects underway at 30 June 2014**

Local labour markets and unemployment duration	Employment impact of minimum wages
Housing assistance in Australia	On entropy techniques for estimating economic parameters
On productivity: concept and measurement	Productivity and the financial and insurance services industry

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

### Supporting research proposals

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

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

The Commission sees value in the 'public good' aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 84 presentations given by the Chair, Commissioners and staff in 2013-14 are provided in appendix E.

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## Quality indicators

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

The staff working paper on productivity in manufacturing, for example, used a number of internal and external quality checks including:

- consultations with relevant external experts at the outset of the project
- the use of internal and external referees, including referees from the Australian Bureau of Statistics, the Department of Industry and the Australian Bureau of Agricultural and Resource Economics and Sciences.

Research projects can involve consultations with key interested parties on the issues they view as important and to obtain access to information. Research is also monitored internally as it progresses, and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences. Generally, drafts of research reports are refereed externally.

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

- invitations from the OECD and the WTO during the year to discuss recent work
- invitations during the year for the Commission to be a research partner in ARC linkage projects
- research papers on income distribution (Greenville, Pobke and Rogers 2013) and deep and persistent disadvantage (McLachlan, Gilfillan and Gordon 2013) included in Australian Policy Online's top ten research publications for 2013
- the large number of international delegations and visitors in 2013-14 that visited the Commission to discuss aspects of its research program and findings (table E. 2).

## Timeliness

The Commission's annual report for 2012-13, which included a theme chapter on using administrative data to achieve better policy outcomes, was completed on schedule on 28 September 2013 and tabled in Parliament on 29 October 2013. The annual report companion volumes (*Trade & Assistance Review 2012-13* and *Productivity Update 2014*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

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## Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform and regulatory policy issues is available from a range of indicators. These cover the use of this research by government, community and business groups and international agencies, and invitations to discuss and disseminate its research findings in community and business forums. Examples from 2013-14 include the following:

- Continued use of the Commission's labour market and productivity research was apparent during the year. For example, research by visiting researcher Dean Parham on labour's share of the growth in income (Parham 2013) was used by the Fair Work Commission in its Annual Wage Review (Fair Work Commission 2014); research on manufacturing productivity (Barnes et. al. 2013) was used by the Australian Workforce and Productivity Agency in a paper on the manufacturing workforce (AWPA 2014); a 2009 Commission submission on productivity performance (PC 2009e) was used in a report by the Australian Chamber of Commerce and Industry on energy sector reform (ACCI 2014); and Commission research on productivity (Barnes 2011, Parham 2012) was used in a report on finance and capital formation in Australia (Industry Super Australia 2013).
- Research by the Commission on social issues again featured prominently during the year. This included use of research on deep and persistent disadvantage (McLachlan, Gilfillan and Gordon 2013) in a report on mental health outcomes by the National Mental Health Commission (2013); the use of the same research by the Benevolent Society in a report on childhood trauma (Moore and McDonald 2014); and use of research on income distribution (Greenville, Pobke and Rogers 2013) in a report on the state of Australian cities (DIT 2013).
- Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in table B.1.

More generally, important means by which supporting research activities contribute to public debate are through media coverage, the dissemination of reports to key interest groups and ready access to reports on the Commission's website. Outputs from the Commission's supporting research program attracted four editorials in major newspapers in 2013-14. To 30 June 2014, for the reports listed in box B.3, there were more than 71 000 external requests for the index pages on the Commission's website. There was a total of more than 143 000 external requests for the 40 supporting research reports for which website usage was tracked, and more than 18 000 requests for speeches by the Commission's Chair.

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## C Competitive neutrality complaints

**The Productivity Commission Act and the Australian Government's Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the practices of government businesses and business activities and the outcomes of its investigations into those complaints. The Australian Government Competitive Neutrality Complaints Office (AGCNCO) received one formal complaint in 2013-14. Details of the investigation and action taken in relation to this complaint is summarised in this appendix.**

The AGCNCO received one formal written complaint in 2013-14. The complaint was in relation to PETNET Australia, a wholly owned subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO). The complaint was not formally investigated.

### **PETNET Australia**

A complaint was received from Cyclopharm on 4 September 2013 alleging that PETNET Australia was not charging prices that reflected its true cost of production and therefore was not meeting its requirements to earn a commercial rate of return. The complaint followed a previous complaint and subsequent investigation in 2011 which found that PETNET, then a start-up company, was unlikely to meet its competitive neutrality requirements under its then business model unless changes were made.

Cyclopharm Limited, through its wholly owned subsidiary, CycloPet Pty Limited, manufactures positron emission tomography (PET) radiopharmaceuticals. The radiopharmaceuticals are used to detect and determine the location, extent and stage of cancer, neurological disorders and cardiac disease. PETNET Australia manufactures and sells the most common PET radiopharmaceutical, fluoro-deoxy glucose (FDG). PETNET Australia (trading as PETNET Solutions) began its operations in August 2009. It operates two medical cyclotrons for radiopharmaceutical production at Lucus Heights.

Preliminary investigations into the 2013 complaint sought information on the past and likely future performance of PETNET Australia. This enabled an update of information that was provided during the 2011 investigation, including PETNET Australia's revised business plan.

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ANSTO advised that the changes which resulted from the Office's past investigation report were likely to mean PETNET would earn a commercial rate of return in the longer term, thus allowing it to comply with Competitive Neutrality Policy. However, as the information supplied rested on a number of assumptions regarding future market conditions, the Office requested ANSTO provide it with audited copies of PETNET's financial accounts for 2013-14 and upcoming years to demonstrate PETNET is operating in compliance with Competitive Neutrality Policy.

With regard to all circumstances and the past investigation report, the Office considered that sufficient time had not passed to assess PETNET Australia's actual longer term commercial performance. Given this, the Office's previous findings and recommendations still stand as the most current assessment of PETNET Australia's compliance or otherwise with Competitive Neutrality Policy. On this basis, the Office did not undertake a second formal investigation of PETNET Australia.

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## D Government commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides a summary of projects which the Government commissioned during the year and government responses to reports completed in 2013-14 and previous years. It also reports on commissioned projects received since 30 June 2014.

This appendix is structured as follows:

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

Table D.1 summarises activity since the Commission's 2012-13 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
27-09-12	Mineral and Energy Resource Exploration	AR 12-13	Report completed 27 September 2013	page 90	page 91
25-10-12	National Access Regime	AR 12-13	Report completed 25 October 2013	page 92	na
21-06-13	Access to Civil Justice	AR 12-13	Report completed 5 September 2014	na	na
25-06-13	Import of Processed Tomato Products	AR 12-13	Report completed 12 December 2013	page 94	na
25-06-13	Import of Processed Fruit Products	AR 12-13	Report completed 12 December 2013	page 93	na
30-10-13	Australia's Automotive Manufacturing Industry	page 94	Report completed 31 March 2014	page 95	page 97
13-11-13	Public Infrastructure	page 83	Report completed 27 May 2014	page 83	na
22-11-13	Childcare and Early Childhood Learning	page 85	In progress	na	na
29-11-13	Tasmanian Shipping and Freight	page 86	Report completed 24 June 2014	page 87	na
28-04-14	Natural Disaster Funding	page 88	In progress	na	na
<b>Other commissioned projects</b>					
14-03-12	Strengthening Australia New Zealand Economic Relations	AR 11-12	Report completed 30 November 2012	AR 12-13	page 101
7-12-12	Major Project Development Assessment Processes	AR 12-13	Report completed 29 November 2013	page 97	na
7-12-12	Regulation Benchmarking: Regulator Engagement with Small Business	AR 12-13	Report completed 24 September 2013	page 98	na
21-05-13	Geographic Labour Mobility	AR 12-13	Report completed 22 April 2014	page 99	na
7-04-14	Costs of Doing Business	page 90	In progress	na	na

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## Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2012-13, 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.

### Public Infrastructure

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

On 13 November 2013, the Australia Government asked the Commission to undertake a six month inquiry into infrastructure costs and financing.

In undertaking its inquiry, the Commission was asked to analyse and report on the following specific areas:

- How infrastructure is currently funded and financed in Australia, including by the Commonwealth, the States and the private sector;
- The rationale, role and objectives of alternative funding and financing mechanisms;
- Examine the cost structure of major infrastructure projects in Australia, including where infrastructure project costs have increased considerably, compared with other countries;
- Provide advice on ways to improve decision-making and implementation processes to facilitate a reduction in the cost of public infrastructure projects; and
- Comment on other relevant policy measures, including any non-legislative approaches, which would help ensure effective delivery of infrastructure services over both the short and long term.

The Commission was also asked to consider the financial risks to the Commonwealth, as well as their possible impact on the Budget and fiscal consolidation goals, of alternative funding and financing mechanisms.

### Key points

The Commission's key points were:

- There is an urgent need to comprehensively overhaul processes for assessing and developing public infrastructure projects.
  - There are numerous examples of poor value for money arising from inadequate project selection, potentially costing Australia billions of dollars.

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- Additional spending under the status quo will simply increase the cost to users, taxpayers, the community generally, and lead to more wasteful infrastructure.
  - Reliance on the notion of an infrastructure deficit, too, could encourage poor investment choices.
  - It is essential to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of services from new and existing infrastructure.
  - Well-designed user charges should be used to the fullest extent that can be economically justified. However, governments will have to continue to fully or partly fund some infrastructure projects and address equity issues.
  - Significant institutional and longer-term road pricing arrangements will create more direct links to road users, taking advantage of advances in vehicle technology.
  - Private sector involvement in infrastructure provision and/or financing delivers efficiency gains only if well designed and well implemented.
    - Private financing is not a 'magic pudding' — ultimately users and/or taxpayers must foot the bill.
    - Government guarantees and tax concessions are not costless and often involve poorly understood risks.
  - Governments will have some capacity to fund more projects than under current fiscal and debt management practices, provided the reform package in this report is implemented to ensure the selection of projects with strong net benefits.
  - Data problems limit analysis and benchmarking. A coordinated and coherent data collection process will address this and improve future project selection decisions.
  - Nevertheless, there is evidence of recent significant increases in the costs of constructing major public infrastructure in Australia. Elevated labour costs due to the mining construction boom has been one factor, but no single input has played a decisive role in cost increases.
  - Until recently, labour productivity growth in the construction sector generally has been sluggish. There is no conclusive evidence that Australian levels of productivity in construction are significantly different from other developed countries.
  - The industrial relations environment in the construction industry remains problematic, mainly in general rather than civil construction, with the problems much greater for some sites, unions and states. Governments can use their procurement policies to drive reform, and penalties for unlawful conduct should rise.
  - Despite significant concentration in the market for large public infrastructure projects, the market appears to be workably competitive today, though a few simple measures would make it more so and would reduce the cost pressures facing procurers.
  - There is significant scope to improve public sector procurement practices and lower bid costs for tenderers, with potentially large benefits for project costs and timing.

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## Childcare and Early Childhood Learning

On 22 November 2013 the Commission was asked by the Australian Government to undertake an inquiry into child care and early childhood learning.

In undertaking the inquiry, the Commission was asked to use evidence from Australia and overseas to report on and make recommendations about the following:

- The contribution that access to affordable, high quality child care can make to:
  - increased participation in the workforce, particularly for women
  - optimising children’s learning and development.
- The current and future need for child care in Australia, including consideration of the following:
  - hours parents work or study, or wish to work or study
  - the particular needs of rural, regional and remote parents, as well as shift workers
  - accessibility of affordable care
  - types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care
  - the role and potential for employer provided child care
  - usual hours of operation of each type of care
  - the out of pocket cost of child care to families
  - rebates and subsidies available for each type of care
  - the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness
  - opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
  - the needs of vulnerable or at risk children
  - interactions with relevant Australian Government policies and programmes.
- Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.
- Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.

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- The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.

The Commission was also asked to consider options within current funding parameters in making any recommendations for future Australian Government policy settings. A final report was to be provided by 31 October 2014.

## **Tasmanian Shipping and Freight**

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

On 29 November 2013 the Government asked the Commission to conduct an inquiry into the current arrangements for supporting freight and passenger services between the mainland and Tasmania.

As part of its inquiry, the Commission was asked to:

- Examine shipping costs, competition and shipping industry competitive structures across Bass Strait.
- Identify the factors inhibiting the provision of international shipping services to Tasmania.
- Examine the competitiveness of Tasmania's freight industry, economic infrastructure and possible reforms that would assist in enhancing effective competition, investment and productivity growth.
- Assess the merits and weaknesses of the current arrangements for supporting freight and passenger services between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.
- In making assessments in relation to matters in the preceding paragraph, the inquiry should:
  - report on the freight and passenger tasks and their costs between Tasmania, Flinders and King Islands and the mainland of Australia; and between Tasmania and international ports;
  - quantify any freight cost disadvantages for goods eligible under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme, identify their primary causes and assess the impact of that disadvantage on Tasmanian business;
  - quantify any cost disadvantages for passengers travelling to Tasmania who are currently eligible for support through the Bass Strait Passenger Vehicle Equalisation Scheme;

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- assess the effectiveness of the current schemes as a mechanism for addressing cost disadvantages, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements; and
  - identify any alternative mechanisms that could more effectively address cost disadvantages, including assessing the full economic costs and benefits of any alternative mechanism.

The Commission was asked to undertake an appropriate public consultation process including holding hearings, inviting public submissions and releasing a draft report to the public. A final report was to be provided to Government by 7 March 2014.

## Key points

The key points from the report were as follows:

- Tasmania, like mainland Australia, is an island economy. It is serviced by high quality but relatively high cost containerised domestic shipping services. The viability of direct international shipping services is affected by the cost of coastal shipping. Given its reliance on sea transport, Tasmania is particularly affected by inefficiencies embedded in coastal shipping regulation. This regulation should be reviewed and reformed as a matter of priority.
- Tasmania uniquely receives (Federally) subsidised freight services via longstanding arrangements in recognition of the relative cost ‘disadvantage’ of Bass Strait transit. The Tasmanian Freight Equalisation Scheme (TFES), Tasmanian Wheat Freight Scheme (TWFS), and Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) were designed to partially offset these costs. The term equalisation misleadingly implies ‘full’ compensation for the cost disadvantage but that is not inherent in the design and operation of the schemes. Further, securing ‘true’ equalisation is inevitably a policy chimera.
- The Australian Government has outlaid more than \$2 billion since the inception of the schemes, and without change a further \$2 billion can be expected over the next 15 years. In 2011/12 total outlays for the schemes were \$128 million.
- There is no coherent economic rationale for the TFES and it falls well short of what is needed to improve the lagging competitiveness of the Tasmanian economy — which the Commission considers should be the policy imperative. It has a high fiscal cost, eligibility is arbitrary; and the direct recipients are concentrated notwithstanding the unclear incidence of the subsidy. Further, the TFES is inherently complex and leads to unintended consequences.
- There is no clearly articulated objective for the BSPVES. At least some of the subsidy is being captured by the Tasmanian Government-owned and sole provider of Bass Strait passenger and vehicle shipping services — TT Line.

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- The Australian Government has stated its current intention to retain the TFES and the BSPVES. The recommendations related to the schemes in this report are made on that basis.
  - A flat rate of subsidy per container (adjusted for King Island and the Furneaux Group of islands) would offer significant advantages over the current parameter based regime — increasing incentives to minimise transport costs, improving transparency and simplifying administration.
  - The Tasmanian Government has initiated a process to secure the return of a commercially viable direct international container service, albeit involving some transitional assistance. This raises an intractable sequencing obstacle for considering the relative merit of moving now to extend the scope of the TFES to all eligible northbound commodities transhipped through the Port of Melbourne.
  - Several efficiency issues relating to Tasmania’s shipping and freight are the responsibility of the Tasmanian Government. These include: rationalising infrastructure assets such as ports and rail; private operation and ownership of freight infrastructure assets where this would improve their efficiency; and developing a sustainable integrated freight strategy.
  - Tasmania faces broader economic and social challenges and the Australian Government should put less emphasis on freight subsidy schemes in favour of reforms that have national and Tasmanian benefits (such as coastal shipping reform) and those that directly enhance the competitiveness and productivity of the Tasmanian economy.

## **Natural Disaster Funding**

The Australian Government asked the Commission on 28 April 2014 to undertake an inquiry into the efficacy of current national natural disaster funding arrangements. At the request of the Government, the scope of the inquiry focussed on naturally occurring rapid onset events that cause a serious disruption to a community or region, such as flood, bushfire, earthquake, storm, cyclone, storm surge, tornado, landslide or tsunami. This is consistent with the definition included in the Natural Disaster Relief and Recovery Arrangements (NDRRA) Determination.

In conducting its inquiry, the Commission was asked to analyse the full scope (incorporating the quantum, coherence, effectiveness and sustainability) of current Commonwealth, state and territory expenditure on natural disaster mitigation, resilience and recovery, and develop findings on the following:

- The sustainability and effectiveness of current arrangements for funding natural disaster mitigation, resilience and recovery initiatives, including – where directly relevant to an improved funding model – the management of disaster relief and recovery;

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- Risk management measures available to and being taken by asset owners – including the purchase of insurance by individuals, business and state, territory and local governments, as well as self-insurance options;
  - The interaction between Commonwealth natural disaster funding arrangements and relevant Commonwealth/state financial arrangements;
  - Options to achieve an effective and sustainable balance of natural disaster recovery and mitigation expenditure to build the resilience of communities, including through improved risk assessments. The options should assess the relationship between improved mitigation and the cost of general insurance. In doing this, the Commission should consider:
    - How business, the community, Commonwealth, state, territory and local governments can most effectively fund natural disaster recovery and mitigation initiatives;
    - How to ensure the right incentives are in place to support cost-effective decision making within and across all levels of government, business, non-government organisations and private individuals;
    - Mechanisms and models to prioritise mitigation opportunities and evaluate the costs and benefits of a range of mitigation options;
    - Options for urban planning, land use policy and infrastructure investment that support cost-effective risk management and understanding of the changes to the risk profile;
    - Options to fund identified natural disaster recovery and mitigation needs, including thresholds for triggering Commonwealth assistance to the states and territories;
  - Projected medium and long term impacts of identified options on the Australian economy and costs for governments as compared to impacts of the current funding arrangements; and
  - Options for transitioning to and implementing any proposed reforms to national natural disaster funding arrangements.

In undertaking the inquiry, the Commission was asked to take into account the roles and responsibilities of Commonwealth, state, territory and local governments, communities, insurers, business (including private providers of essential infrastructure), non-government organisations and private individuals. The Commission was to consider funding for disaster response only where directly relevant to mitigation, relief and recovery and existing Commonwealth/state joint funding arrangements.

Since much disaster spending is directed towards infrastructure, the Commission was also asked to take into account evolving infrastructure and asset management policy and practice at the national, state and local levels.

The Commission was asked to provide a Draft Report by September 2014 and a Final Report by the end of December 2014.

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## Costs of Doing Business

On 7 April 2014 the Australian Government asked the Commission to conduct a study of the cost structures of the dairy product manufacturing industry and the retail trade industry.

In undertaking the study, the Commission was specifically asked to:

- Undertake a case study of the costs (such as costs relating to capital, labour, intermediate inputs including energy, taxation, superannuation and/or regulatory compliance) facing businesses operating in Australia in the dairy product manufacturing industry and in the retail trade industry.
- Where relevant, identify areas of cost advantage and disadvantage for these businesses compared to international competitors.

The Government asked that the Commission provide an interim report within two months of receipt of the reference, within a final report within six months of receipt.

## Reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 9 October 2014. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

### Mineral and Energy Resource Exploration

Inquiry Report No. 65, signed 27 September 2013, report released 5 March 2014.

The key points from the report were as follows:

- Mineral and energy resource exploration in Australia is a small part of the economy, equivalent to 0.5 per cent of GDP in 2011-12. The sector's significance is in discovering commercially valuable resources that sustain the operations of mineral and energy extraction industries — which represented 9 per cent of GDP in 2011-12.
- The number, size and quality of resource discoveries in Australia is declining over the longer term, and the exploration sector is experiencing rising costs and lower productivity.
- Governments regulate resource exploration for three broad reasons:
  - the mineral and energy resources are owned by the Crown
  - exploration may impact on existing and future land uses such as agriculture, or damage sites of environmental and heritage significance

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- exploration may have effects beyond the area being explored, such as on the regional environment and nearby communities.
  - Many stakeholders are dissatisfied with the current regulatory arrangements:
    - some explorers claim that governments are discouraging exploration by increasing compliance costs, extending approval times and increasing regulatory uncertainty
    - some community groups claim that regulations are insufficient to protect heritage, environmental and community values and agricultural uses of the land, and that regulators are not being sufficiently diligent in protecting those values and land uses.
  - Regulatory processes that impose unnecessary burdens on resource explorers or inhibit exploration can be reformed by:
    - ensuring stronger and simpler coordination, transparency and accountability of exploration licence approval processes
    - making land access decisions that take into account the benefits of exploration to the wider community, and that are appropriate to the level of risk posed by exploration as informed by sound evidence
    - improving access to the existing knowledge of Indigenous heritage and accrediting state and territory government processes which meet Australian Government standards of Indigenous heritage protection
    - addressing state, territory and Commonwealth environmental approvals processes that are duplicative and are not commensurate with the risk and significance of the environmental impacts of exploration.
  - Explorers highly regard the accessibility and provision of pre-competitive data by Australia's geological survey organisations. However, the effectiveness of state and territory geological survey organisations is hampered because significant shares of their budgets are from short-term funding initiatives.

## Government decision

On 28 May 2014, the Australian Government released an interim response to the Commission's report (Australian Government 2014a). The response stated:

Of the 22 recommendations, the Commonwealth has implemented six through previous processes; agreed five; provisionally agreed four; and noted seven. This forms the Commonwealth's interim response. The interim response is being tabled in order to commence negotiations with the states and Northern Territory; a final response will be tabled within 24 months. (Australian Government 2014a, p. 2)

The recommendations agreed to by the Commonwealth included endorsement of the National Offshore Petroleum Safety and Environmental Management Authority's (NOPSEMA's) process to assess environmental approvals; strengthened bilateral arrangements with the States and Territories for assessments; undertaking and publishing a

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review of the benefits and costs of the ‘water trigger’ amendment to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth); and setting regulatory requirements relating to exploration that are proportionate to impacts and risks.

## **National Access Regime**

Inquiry Report No. 66, signed 25 October 2013, report released 11 February 2014.

The key points from the report were as follows:

- The National Access Regime should be retained.
  - Access regulation can address an enduring lack of effective competition, due to natural monopoly, in markets for infrastructure services where access is required for third parties to compete effectively in dependent markets. This is the only economic problem access regulation should address.
  - The scope of the Regime should be confined to ensure its use is limited to the exceptional cases where the benefits arising from increased competition in dependent markets are likely to outweigh the costs of regulated third party access to infrastructure services. Proposed changes to the declaration criteria seek to achieve this outcome.
  - Robust institutional arrangements, including an avenue to limited merits review, should ensure that access regulation is judiciously applied.
- When considering whether to regulate access to infrastructure services in the future, governments should seek to demonstrate that there is a lack of effective competition in the market for the service that is best addressed by access regulation. An assessment of the net benefits should determine whether access regulation is most appropriately applied at the facility or industry level.
  - Facility based arrangements impose net costs if they are incorrectly applied, and provide incentives for lobbying. Such arrangements should be limited to where there is a clear net benefit from tailoring access regimes for a specific facility.
  - Further industry specific regimes should apply only where there is sufficient similarity between infrastructure services within the industry and where the industry has features that justify different regulatory treatment from that offered by the generic National Access Regime.
  - Caution should be exercised before mandatory undertakings are implemented in the future. Where mandatory undertakings are used, they should be subject to upfront and ongoing assessment to ensure they are used to target the economic problem. Safeguards for the provider and other existing users of the service should be consistent with those for declared services.
- There is an economic rationale for the Australian Competition and Consumer Commission's (ACCC's) power to direct infrastructure extensions in an access

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determination but, due to the practical difficulties of directing extensions, it is likely that the benefits of using the power would rarely outweigh the costs.

- Part IIIA should be amended to confirm that the ACCC's legislative power to direct extensions also encompasses capacity expansions. This will ensure that the safeguards set out in the legislation will also apply to directed expansions.
- Following a public consultation process, the ACCC should develop guidelines outlining how it would exercise its legislative power to direct extensions such that it would be expected to generate net benefits to the community. The preparation of the guidelines should include an analysis of the workability and adequacy of the provision to direct extensions and its safeguards.
- The safeguards should not be construed such that a service provider could be required to pay the upfront costs of the directed extension or capacity expansion.

## **Safeguards Inquiries into the Import of Processed Tomato and Processed Fruit Products**

Inquiry Reports No. 67 and 68, signed 12 December 2013, report released 20 December 2013.

On imports of processed fruit products, the main findings were:

- Safeguard measures are not warranted for processed citrus products because there is no domestic industry producing like or directly competitive products.
- Safeguard measures are not warranted for processed 'other' fruit products. The domestically produced products that are like or directly competitive with the imported products are an insignificant part of the domestic industry's business. Therefore, there is little potential for imports of processed other fruit to be a contributor to any injury suffered by the domestic industry.
- The requirement for an increase in imports over the investigation period under Article 2.1 of the Agreement on Safeguards has:
  - been satisfied for processed mixtures on the basis of both an absolute and a relative increase in imports
  - been satisfied for processed peaches and pears, but only on the basis of an increase in imports relative to domestic production
  - not been satisfied for processed apricots either on the basis of an absolute or a relative increase in imports.
- The evidence does not support the conclusion that the injury to the domestic industry has been caused by an increase in imports of processed pears, peaches and fruit mixtures. The injury has resulted from a combination of the following factors:
  - long term reductions in the domestic demand for processed fruit products

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- reduced export volumes
  - rising unit costs of domestic production, driven substantially by declining economies of scale due to lower domestic demand and reduced export volumes
  - domestic retailers promoting private label brand products to compete with the sole domestic producer and with each other, as well as to improve reliability of supply.

On imports of processed tomato products, the main findings were:

- There has not been a sufficient increase in import volumes of the products under reference to satisfy the requirement under Article 2.1 of the Agreement on Safeguards. However, there is evidence that imports have increased relative to domestic production, sufficient to meet the WTO standard. This change was largely driven by changes in domestic production.
- Increased imports of the processed tomato products under reference have not caused serious injury to the domestic industry producing like or directly competitive products. Instead, the injury has resulted from a combination of factors, including:
  - sustained competitive pressure from imports
  - supermarket private label strategies, facilitated by the appreciation of the Australian dollar
  - extreme weather events.
- Therefore, safeguard action under the WTO Agreement on Safeguards is not warranted.

## **Australia's Automotive Manufacturing Industry**

Inquiry Report No. 70, signed 31 March 2014, report released 26 August 2014.

On 30 October 2013, the Treasurer, the Hon. Joe Hockey MP, and the Minister for Industry, the Hon. Ian McFarlane MP, asked the Commission to undertake an inquiry into public support for Australia's automotive manufacturing industry.

As part of its inquiry, the Commission was required to:

- Examine national and international market and regulatory factors affecting:
  - the Australian automotive manufacturing industry's current structure, productivity, investment, profitability, international competitiveness, exports, workforce structure and practices, skills levels and long-term sustainability;
  - Australia's attractiveness as an investment location for all phases of automotive manufacturing activity, from research and development through to production of components and vehicles;
  - domestic and international demand for Australian design and engineering services, vehicles and automotive products; and

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- consumer preferences, including consumer demand for new products and technologies.
  - In examining these factors, take into account the following matters:
    - international automotive industry assistance arrangements, including reporting on and quantifying tariff, non-tariff barriers and budgetary assistance provided by major and emerging automotive-producing countries and the barriers and opportunities for Australian manufacturers and suppliers;
    - the impact of current workplace arrangements in the industry, domestic industry assistance, government vehicle purchasing policies, the Government’s broader deregulation agenda and the taxation environment (noting fair work laws and taxation reform are subject to separate comprehensive review processes); and
    - the spill-over benefits of the automotive sector, such as technology diffusion.
  - Taking into account all of the above, identify and evaluate possible alternative public support mechanisms that:
    - improve the long-term profitability, sustainability and productivity of the industry;
    - facilitate research into, and the development of, innovative alternative vehicle and component technologies by the industry;
    - contribute to national productivity growth;
    - promote mutual obligation, accountability and transparency; and
    - are consistent with Australia’s international trade obligations.

including:

- retargeting of assistance, including within the Automotive Transformation Scheme; and
- introducing more internationally-competitive workplace, regulatory and taxation policies; and
- identifying any significant transition issues or adjustment costs that may arise from alternative support mechanisms or policy changes and how they might be best managed.

Assess the significance of the capabilities within the industry, its direct employment and economic benefits, its secondary impacts on other sectors of the economy, and quantify the costs and benefits, including at the economy-wide and regional level, of existing and alternative assistance mechanisms.

The Commission was asked to provide a preliminary findings report by 20 December 2013 and a final report by 31 March 2014.

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## Key points

The Commission's key points were:

- Australia's automotive manufacturing industry is undergoing significant change.
  - Motor vehicle producers in Australia have not been able to survive in the highly competitive global and domestic automotive markets — Ford, Holden and Toyota have announced they will cease local manufacturing before the end of 2017.
  - Component manufacturers face ongoing adjustment pressure and rationalisation.
  - It is estimated that up to 40 000 people may lose their jobs as a result of the closure of the motor vehicle manufacturing plants and the rationalisation of firms in the supply chain. It is likely that job losses will be staggered over several years.
  - Decades of transitional assistance to automotive manufacturing firms (\$30 billion between 1997 and 2012) has forestalled, but not prevented, the significant structural adjustment now facing the industry.
- The policy rationales for industry-specific assistance to automotive manufacturing firms are weak and the economywide costs of such assistance outweigh the benefits.
  - The Automotive Transformation Scheme should be closed after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia.
  - Component manufacturing firms are currently set to receive over \$300 million in industry-specific assistance between 2014 and 2017. There are both efficiency and industry equity arguments against extending assistance beyond that already committed, or introducing new assistance programs that would advantage component manufacturers ahead of other firms that face adjustment pressures.
- The labour market in Australia is dynamic — many employees lose their jobs in any one year and many people who are jobless are hired. In the year ending February 2013, about 355 000 people were involuntarily retrenched across Australia.
- Retrenched employees face costs associated with job search and training, and some will have lower paid or less secure jobs once re-employed. Loss of employment is particularly challenging for older people, or those with poor English proficiency or lower skill levels.
  - While retrenched manufacturing employees may take longer on average to find re-employment than employees retrenched from other industries, within a year about two-thirds are likely to be re-employed on a full, part-time or casual basis.
  - Adjustment pressures are likely to be concentrated within particular regions, such as North Adelaide, parts of Melbourne and Geelong. Some affected regions already have relatively high rates of unemployment and social disadvantage.
- Governments should ensure the appropriate resourcing of the delivery of generally available welfare, training and employment services for all clients in regions placed under pressure by automotive manufacturing retrenchments.

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- Providing adjustment assistance to retrenched automotive manufacturing employees at a level that exceeds the assistance generally available to other jobseekers raises efficiency and equity issues.
    - Governments should consider ways to better target assistance to retrenched employees who are likely to encounter the greatest difficulties finding re-employment.
  - Regional adjustment funds, infrastructure and defence spending and industry support programs are costly and ineffective ways to facilitate workforce adjustment.

### Government decision

The Australian Government released a response to the Commission's report on 26 August 2014. The response 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 United Nations Regulations; and to abolish Australian Government fleet procurement policies that favour the purchase of locally-made vehicles.

## Major Project Development Assessment Processes

Research Report completed 29 November 2013, report released 10 December 2013.

The key points from the report were as follows:

- While Australia already has in place the building blocks of a sound development assessment and approval (DAA) regulatory system, there is substantial scope to comprehensively overhaul the framework in Australia for major projects.
- The DAA processes of Australian jurisdictions and select countries were benchmarked for this study. A number of leading practices were identified which should be implemented by all Australian jurisdictions.
- DAA areas that require attention include:
  - unnecessary complexity and duplicative processes
  - lengthy approval timeframes
  - lack of regulatory certainty and transparency in decision making
  - conflicting policy objectives
  - inadequate consultation and enforcement
  - regulatory outcomes falling short of their objectives.
- Specific reforms proposed include:

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- a five-point plan to move towards a 'one project, one assessment, one decision' framework for environmental approvals, that includes strengthening bilateral assessment and approval agreements between the Commonwealth and the States and Territories
  - limiting the use of 'stop-the-clock' provisions
  - States and Territories improving coordination between their regulatory agencies
  - institutional separation of environmental policy development from regulatory and enforcement functions
  - enshrining the principle that Ministerial approval — unless a deemed approval — should not be reviewable by review bodies other than on judicial review grounds
  - establishing statutory timelines, together with appropriate safeguards, for key decision points in the DAA process
  - expanding the use of Strategic Assessments and Plans where practical to do so
  - requiring that approval authorities publish reasons for their approval decisions and conditions
  - improving third party opportunity for compliance actions.
- Any regulatory system is only as good as its weakest link. Partial reform efforts are unlikely to achieve meaningful improvements.

## **Regulation Benchmarking: Regulator Engagement with Small Business**

Research Report completed 24 September 2013, report released 9 October 2013.

The key points from the report were:

- Small businesses feel the burden of regulation more strongly than other businesses. Almost universally, their lack of staff, time and resources present challenges in understanding and fulfilling compliance obligations.
- How small businesses 'experience' regulation has as much to do with the engagement approaches of regulators as it does with the regulations. Regulators are generally committed to effective engagement and to minimising unnecessary burdens, but many do not have robust frameworks to ensure high level ideals consistently translate to good practices on the ground.
- Regulator culture is crucial. Those regulators with effective engagement practices have adjusted their culture by focusing on senior management priorities, training and skills of enforcement staff, performance monitoring, stakeholder feedback, and rewarding behaviour consistent with desired practices.
- Regulators' communications can be more responsive to small business needs and capacities. In particular:

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- tailoring information requirements around data already collected by businesses
  - greater use of industry associations to disseminate information
  - ensuring regulatory information can be readily found on websites
  - enabling timely access to regulatory staff, would improve small business experiences with regulators.
  - There is scope for increased targeting of those businesses and activities which present a higher risk to communities, and for adoption of lesser compliance cost approaches for lower risk businesses, such as less frequent inspections or less onerous reporting requirements.
    - When done well, such targeting is likely to achieve outcomes at a lower cost than an engagement approach based on strict application of a small business definition.
  - Governments can improve engagement outcomes by ensuring the frameworks within which regulators operate do not inhibit adoption of leading practices. This includes ensuring regulators have access to an appropriate range of compliance and enforcement tools, and resourcing to effectively achieve the policy objectives behind their regulatory responsibilities.
    - Where regulators are inadequately resourced, either some risks to communities go unmitigated or the costs of mitigation are pushed onto those regulated (including small businesses). Governments should provide regulators with explicit guidance on regulatory priorities, given limited resources.
  - Regulator discretion in compliance monitoring and enforcement must be accompanied by appropriate guidance and transparency and accountability measures as well as a separation of education and enforcement roles, where feasible. Governments should ensure low cost mediation services for the resolution of disputes, particularly with local governments.
  - More widespread use could be made of formal cooperation arrangements between regulators, including lead agency models to facilitate joint compliance checks and proactive sharing of compliance information.
  - Continuous improvement in regulator performance requires ongoing monitoring of the effectiveness of delivery approaches and costs imposed on business. Governments should require regulators to report against engagement principles and encourage regulator forums which exchange views on good practice and build professional capacity.

## **Geographic Labour Mobility**

Research Report completed 22 April 2014, report released 6 May 2014.

The key points from the report were as follows:

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- Geographic labour mobility is an important element of a well-functioning labour market. By improving matches between employers and workers, geographic labour mobility can contribute to economic efficiency and community wellbeing.
  - Advances in transport and communication technologies have broadened the scope of geographic labour mobility. This mobility can take the form of residential moves, long-distance commuting and telecommuting.
  - Geographic labour mobility has been an important mechanism for adjusting to the demographic, structural and technological forces shaping the Australian economy. It has accommodated differences in the pace of economic activity across Australia and enabled wealth to be more widely distributed across the country.
  - Labour appears to be responding to market signals and moving to areas with better employment and income prospects. These movements, together with the increase in long-distance commuting and temporary immigration, have assisted in meeting labour demand in many parts of the country.
  - Gravity (a region's size), distance and economic opportunities are the main determinants of geographic labour mobility at an aggregate level.
  - At the individual level, personal and locational factors interact to influence whether and where people move. Life events and family circumstances appear to be the most important factors in such decisions, but factors related to housing, employment, local infrastructure and a person's level of education also play a prominent role.
  - Areas of high unemployment and disadvantage vary in their mobility — some have high rates of mobility, while others have low rates of mobility.
  - While geographic labour mobility is assisting labour market adjustment, high unemployment is persisting in some regions, and there is room for improvement.
  - There are no simple levers to affect geographic labour mobility. Many policies aiming to influence where people live and work in regional and remote areas have had limited effectiveness. Policies will be more effective if they are highly targeted.
  - In addition to geographic labour mobility, a flexible, accessible and quality education and training system is important for meeting Australia's continually changing workforce and employment needs.
  - The negative consequences of some poorly designed policies, such as taxation, housing and occupational licensing, include reduced geographic labour mobility. Reform in these areas would lessen impediments to geographic labour mobility, and also have broader benefits.
    - The community has been poorly served by the lack of progress in occupational licencing and action should be expedited.
  - Improved access to administrative data would assist better understanding of geographic labour mobility in Australia.

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## **Government responses to reports from previous years**

### **Strengthening Australia New Zealand Economic Relations**

Research Report conducted jointly with the New Zealand Productivity Commission. Report completed 30 November 2012, report released 13 December 2012.

On 9 May 2014 the Australian and New Zealand Governments released a joint response to the Report (Australian Government and New Zealand Government 2014). Of the 32 recommendations made in the report, the Government response listed 25 recommendations that received joint support, support in-part or that were being addressed under existing government arrangements. Seven recommendations were deemed as requiring further consideration.

A recommendation on the mutual recognition of imputation credits will be considered as part of the White Paper on taxation, as already announced. Also the Commission's report recommended 5 yearly reviews of the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) to take stock of what has been achieved and learnt and to ensure that the agenda remains relevant and forward looking. The governments' response states that they will, ahead of the 2015 Leaders' meeting, consider how to progress the five-yearly reviews of CER, including identifying opportunities for further collaboration between the productivity commissions.



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## E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of 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 2013-14, as well as briefings to international visitors.

### **Commission Research Papers**

#### **An Ageing Australia: Preparing for the Future**

This report was released on 22 November 2013. It focuses on the effects of ageing on economic output (underpinned by changes in population, participation and productivity) and the resulting implications for government budgets were current policy settings to be maintained.

The key points from the report were:

- Australia's population will both grow strongly and become older. Such slow but profound shifts in the nature of a society do not elicit the same scrutiny as immediate policy issues. The preferable time to contemplate the implications is while these near-inevitable trends are still in their infancy.
- Population ageing is largely a positive outcome, primarily reflecting improved life expectancy. A female (male) born in 2012 will on average live for an estimated 94.4 (91.6) years.
- However, population growth and ageing will affect labour supply, economic output, infrastructure requirements and governments' budgets.
- Australia's population is projected to rise to around 38 million by 2060, or around 15 million more than the population in 2012. Sydney and Melbourne can be expected to grow by around 3 million each over this period.
- The population aged 75 or more years is expected to rise by 4 million from 2012 to 2060, increasing from about 6.4 to 14.4 per cent of the population. In 2012, there was roughly one person aged 100 years old or more to every 100 babies. By 2060, it is projected there will be around 25 such centenarians.

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- Total private and public investment requirements over this 50 year period are estimated to be more than 5 times the cumulative investment made over the last half century, which reveals the importance of an efficient investment environment.
  - Labour participation rates are expected to fall from around 65 to 60 per cent from 2012 to 2060, and overall labour supply per capita to contract by 5 per cent.
  - Average labour productivity growth is projected to be around 1.5 per cent per annum from 2012-13, well below the high productivity period from 1988-89 to 2003-04. Real disposable income per capita is expected to grow at 1.1 per cent per annum compared with the average 2.7 per cent annual growth over the last 20 years.
  - Collectively, it is projected that Australian governments will face additional pressures on their budgets equivalent to around 6 per cent of national GDP by 2060, principally reflecting the growth of expenditure on health, aged care and the Age Pension.
  - Major impending economic and social changes can create the impetus for new reform approaches not currently on the policy horizon. For example:
    - The design of the Age Pension and broader retirement income system might be linked to life expectancy after completion of the current transition to 67 years in 2023.
    - Using some of the annual *growth* in the housing equity of older Australians could help ensure higher quality options for aged care services and lower fiscal costs.
  - Wide-ranging health care reforms could improve productivity in the sector that is the largest contributor to fiscal pressures. Even modest improvements in this area would reduce fiscal pressures significantly.

## Staff working papers

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

### Deep and Persistent Disadvantage in Australia

*Rosalie McLachlan, Geoff Gilfillan and Jenny Gordon, July 2013*

Key points from the paper were:

- Australia has experienced two decades of economic growth and rising average incomes, but some in the community continue to be ‘left behind’.
- Disadvantage is a multi-dimensional concept. It is about ‘impoverished lives’ (including a lack of opportunities), not just low income. Poverty, deprivation, capabilities and social exclusion are different lenses to view and measure disadvantage.

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- A number of researchers produce estimates of the extent of disadvantage in Australia. Each relies on contestable assumptions and thresholds.
  - Around 5 per cent of Australians aged 15 plus are estimated to have experienced deep social exclusion in 2010, fewer than in 2001 (7 per cent). The rate of very deep exclusion was stable at around 1 per cent (Social Exclusion Monitor).
  - Fewer people experience ongoing disadvantage — 3 per cent of Australians experienced deep social exclusion for five or more years (between 2001 and 2010) and just under 1 per cent for seven or more years.
  - People who are more likely to experience deep and persistent disadvantage include: lone parents; Indigenous Australians; people with a long-term health condition or disability; and people with low educational attainment. Many are public housing tenants and are weakly attached to the labour market.
  - Disadvantage has its roots in a complex interplay of factors. Many of these factors, when combined, can have a compounding effect. The probability that any one person will experience disadvantage is influenced by: their personal capabilities and family circumstances; the support they receive; the community where they live (and the opportunities it offers); life events; and the broader economic and social environment.
  - A child's earliest years fundamentally shape their life chances. Gaps in capabilities between children from socioeconomically disadvantaged families and their more advantaged peers appear early in life. Starting school 'behind the eight ball' can begin a cycle of disadvantage that sets a trajectory for poorer outcomes later in life.
  - Education is a foundation capability. It improves a person's employment prospects and earning capacity, and the evidence points to a relationship between education and better health and raised civic and social engagement.
  - Employment is the route out of disadvantage for most people of working age.
  - Disadvantage imposes costs on people and families who experience it and on the broader community. Only avoidable costs (reductions in disadvantage that are realistically possible) should be included when estimating the costs of disadvantage.
  - Longitudinal data is critical to understanding the dynamics of disadvantage. But people who are most disadvantaged are often not well represented in such studies. Administrative data has the potential to provide new knowledge

## **Prevalence of Transition Pathways in Australia**

*Jane Fry and Clare Boulton, August 2013*

The analysis in this paper identifies broad patterns — or pathways — in labour market and education activities associated with different life stages. It uses a novel approach — optimal matching combined with cluster analysis — to analyse 10 years of calendar data from the *Household, Income and Labour Dynamics in Australia* (HILDA) survey.

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The key points were:

- This paper uses longitudinal information from the calendar in the *Household, Income and Labour Dynamics in Australia* (HILDA) Survey to track monthly education and labour market activities from 2000 to 2010 for about 6500 working age individuals. The techniques of optimal matching and cluster analysis (OMCA) are used to identify and group individuals with similar patterns of activities into 'pathways'.
- Much of the wider literature considers transitions from one activity to another (such as study to employment, or employment to retirement). OMCA applied to calendar style data for other countries shows that there can be multiple transitions (such as reversals or repeated activities, like returning to the labour force or churning in and out of employment) and different pathways can arise with key life events (such as leaving education, family formation or retirement).
- Seventeen pathways are identified. Although each pathway contains some variation between the sequences of activities, distinct patterns can be observed.
  - For youths aged 15–24 in 2001, five pathways are identified: three associated with increasing education levels and transitions to work; one associated with churning in and out of work; and one dominated by young women withdrawing from the labour force to raise children.
  - Activity sequences for young adults aged 25–39 are grouped into four pathways: two involving work (one with increasing education); and two involving prolonged periods outside the labour force associated with raising children (with one pathway showing subsequent return to work).
  - Mature adults aged 40–54 in 2001 follow one of four pathways: one dominated by work; two dominated by women spending time outside the labour force raising children (with one return to work pathway); and one pathway associated with early retirement.
  - For seniors aged 55–64, four pathways are identified: one dominated by work; and three associated with retirement or transitions to retirement.
- Successful and unsuccessful outcomes in the labour market can be related to the pathways that individuals follow. The analysis in this paper can be a valuable input to identifying relationships between pathways and outcomes, and the individual characteristics that are associated with specific pathways. That analysis could then inform strategies to reduce the risk of unsuccessful labour market outcomes, such as prolonged unemployment.

## **Productivity in Manufacturing: Measurement and Interpretation**

*Paula Barnes, Leo Soames, Cindy Li and Marcelo Munoz, December 2013*

The objective of this paper was to examine recent productivity performance in Manufacturing, with particular focus on the causes of its decline. In particular, the paper:

- 
- analyses Multifactor productivity (MFP) change and its proximate causes (value added, labour and capital inputs) for Manufacturing as a whole
  - estimates MFP change and its components at the subsector level within Manufacturing
  - examines factors influencing the productivity performance of Manufacturing and three of its largest constituent subsectors (as they have contributed most to recent trends in aggregate performance).

Key points were:

- Multifactor productivity (MFP) growth in Manufacturing was negative over the most recent complete productivity cycle (2003-04 to 2007-08), in contrast to the positive growth in the previous cycle. This large decline was atypical for Manufacturing, and since then MFP has continued to decline (although more slowly).
  - Manufacturing's MFP decline was a major contributor to flat market sector MFP.
- There is no overarching systemic reason for the large decline. Rather, various subsector-specific factors, such as lags between investment and output; unmeasured increases in quality; and lower capacity utilisation all contributed. Some factors reflect temporary responses to changing competitive conditions.
  - Faster rates of input growth (capital and hours worked) and slower output (value added) growth were the 'proximate causes' of this Manufacturing MFP decline.
  - Petroleum, coal, chemical and rubber products (PCCR), Food, beverage and tobacco products (FBT), and Metal products (MP) collectively accounted for two-thirds of the decline between cycles. Influences on each subsector were diverse.
- PCCR output declined in absolute terms over the most recent cycle (after growing over the previous cycle), and yet there was a large increase in capital investment.
  - Petroleum refineries invested to meet new environmental standards, but the improved fuel quality is not fully reflected in the output measure, and thus in MFP. Value added per unit of output also declined, as greater volumes of feedstock and refined fuel were imported in response to reduced output from domestic oilfields.
  - For plastic products, increased production by overseas firms with lower input costs and the appreciation of the Australian dollar led to strong import competition. Domestic production declined, leading to underutilised capacity. Higher demand for fertilisers and explosives led to very large investments to expand chemical production, but there was a lag before output increased.
  - Food and beverages output growth slowed, yet hours worked increased significantly.
  - ... Slower output growth was associated with a decline in exports and a loss of domestic market share for some products — reflecting input cost pressures, appreciation of the Australian dollar, and, in cases such as wine, drought.

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- ... Consumer preferences also drove changes in the composition of output that increased the input intensity of production — for example, there was growth in smaller scale, more labour intensive, non-factory bakeries.
  - ... But the decline in MFP in FBT may have been overstated due to challenges in measuring improved output quality and reductions in the capital stock.
  - Metal products was different, with faster output growth and even faster input growth.
    - ... Fabricated metals output grew strongly to meet increased demand from the Construction and Mining sectors.
    - ... Metal products was responsible for most of the capital growth in Manufacturing, largely to expand alumina refining capacity. However, the inevitable lag between investment and ensuing output led to lower measured productivity.
  - The MFP decline in Manufacturing has slowed in the current incomplete cycle. MFP growth in PCCR and FBT remains negative and it is marginally positive in MP.

## **Environmental Policy Analysis: A Guide to Non-Market Valuation**

*Rick Baker and Brad Ruting. January 2014*

The objective of this paper is to examine the validity and reliability of various non-market valuation methods, the case for using non-market valuation in environmental policy analysis, and how best use can be made of non-market valuation in developing environmental policy.

- Government policies aimed at generating environmental benefits almost always impose costs on the community. Weighing up these trade-offs is challenging, in part because environmental benefits are difficult to value, particularly those that are not reflected in market prices (so called ‘non-market’ values).
- There are several non-market valuation methods that can be used to evaluate such trade-offs, but they are not widely used for environmental policy analysis in Australia.
- There are two main types of non-market valuation methods: revealed preference and stated preference.
  - The validity of revealed preference methods is widely accepted, but there are many circumstances where they cannot provide the estimates needed for environmental policy analysis.
  - Stated preference methods can be used to estimate virtually all types of environmental values, but their validity is more contentious.
- The evidence suggests that stated preference methods are able to provide valid estimates for use in environmental policy analysis. However:

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- there are many elements that practitioners need to get right to produce meaningful results
  - value estimates are likely to be less reliable when respondents are asked about environmental assets that are especially complex or relatively unfamiliar to them.
  - Benefit transfer involves applying available value estimates to new contexts. Its accuracy is likely to be low unless the primary studies are of high quality and relate to similar environmental and policy contexts. These seemingly obvious cautions are often not observed.
  - Because non-market valuation methods can generally provide objective estimate of the value that the community places on environmental outcomes, they offer advantages over other approaches to factoring these outcomes into policy analysis.
  - The case for using non-market valuation varies according to circumstances. It is likely to be strongest where the financial or environmental stakes are high and there is potential for environmental outcomes to influence policy decisions.
  - Where non-market valuation estimates are made they should generally be included in a cost–benefit analysis. Sensitivity analysis should be provided, as well as descriptive information about the environmental outcomes of the proposed policy.
  - There is a range of steps that could be taken to realise more fully the potential of non-market valuation, including developing greater knowledge about it within relevant government agencies.

## **Literacy and Numeracy Skills and Labour Market Outcomes in Australia**

*Anthony Shomos and Matthew Forbes, May 2014*

This paper profiles the literacy and numeracy skills of Australia's adult population and assesses how important they are for two labour market outcomes – employment and wages.

- Adult literacy and numeracy skills contribute to wellbeing in many ways. At an individual level, they are central to social and economic participation.
  - Literacy and numeracy skills are a core part of a person's human capital.
  - They also support the development of other forms of human capital, including knowledge, other skills and health.
- Some Australians have low (level 1 or below) literacy and numeracy skills. In 2011-12:
  - 14 per cent of Australians could, at best, read only relatively short texts from which they were able to locate only a single piece of information.
  - 22 per cent could only carry out one-step or simple processes such as counting where the mathematical content is explicit with little or no text or distractors.

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- At the other end of the skill distribution, 16 per cent of Australians had high (level 4/5) literacy skills and 12 per cent had high numeracy skills in 2011–12.
    - People with high literacy skills can make complex inferences and evaluate subtle truth claims or arguments in lengthy or multiple texts.
    - People with high numeracy skills can understand a broad range of mathematical information that may be complex, abstract or embedded in unfamiliar contexts.
  - Most Australians have skills somewhere between these levels. Groups with relatively low literacy and numeracy skills include: people with low levels of education; older persons; people not working; and immigrants with a non-English speaking background.
  - Compared with other countries in the OECD, Australia performs above average on literacy but average in numeracy.
  - Higher literacy and numeracy skills are associated with better labour market outcomes (employment and wages). Econometric modelling shows that:
    - an increase in literacy and numeracy by one skill level is associated with an increased likelihood of employment of 2.4 and 4.3 percentage points for men and women, respectively
    - an increase in literacy and numeracy skills is associated with a similar increase in the probability of employment, whether a person had a degree, diploma/certificate or Year 12 education
    - an increase in literacy and numeracy by one skill level is associated with about a 10 per cent increase in wages for both men and women. This positive association is equivalent to that of increasing educational attainment from Year 11 to Year 12 or to a diploma/certificate
    - up to 40 per cent of the association between education and employment is attributable to literacy and numeracy skills. These results are consistent with education providing many other attributes of human capital that are valued in the workplace
    - more than half of the 'penalty' that affects the wages of people with a non-English speaking background is explained by their lower literacy and numeracy skills.

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## 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 Input-output Tables: uses and abuses

*Paul Gretton, October 2013*

This staff research note describes the uses and abuses of input-output tables, with the aim of improving future utility of what is an important but sometimes misused resource. In doing so, the note examines a number of novel approaches to effective use and some examples of abuse.

Novel uses include:

- an environment-economic input-output framework;
- analysis of the composition of exports; and
- foreign value-added levels in nations' exports.

Abuse primarily relates to overstating the economic importance of specific sectoral or regional activities. It is likely that if all such analyses were to be aggregated, they would sum to much more than the total for the Australian economy. Claims that jobs 'gained' directly from the cause being promoted will lead to cascading gains in the wider economy often fail to give any consideration to the restrictive nature of the assumptions required for input-output multiplier exercises to be valid. In particular, these applications fail to consider the opportunity cost of both spending measures and alternate uses of resources, and may misinform policy-makers.

**Table E.1 Speeches and presentations by the Chair, Commissioners and staff, 2013-14**

<i>Organisation/event</i>	<i>Topic</i>	
<b>Peter Harris AO, Chair</b>		
Victorian Civil Construction Industry Alliance, Melbourne	Role of the Productivity Commission	Sept 2013
Trans-Tasman Business Centre Productivity Imperative Series, Perth	Productivity and the National Income Outlook	Sept 2013
The Global Foundation Boardroom Series Luncheon, Melbourne	How does Australia compare favourably across the five pillars of productivity	Oct 2013
IPA 2013 Infrastructure & Investment Conference, Sydney	Infrastructure Investment	Oct 2013
Australian Institute of Company Directors' Breakfast, Perth	Discussant panellist	Nov 2013
Australian Centre for Health Research, Productivity in the Health System Roundtable, Melbourne	Health reform, no silver bullet	Dec 2013
Melbourne School of Government Conference, Melbourne	Governing Public Policy in the Asian Century and Chairing panel	Dec 2013
Financial Services Council CEO Boardroom Luncheon, Sydney	Commission's unique role in the Australian economic and political landscape	Feb 2014
CEDA, Melbourne	Productivity of Government	Feb 2014
Australia-Canada Leadership Forum, Melbourne	Role of the Productivity Commission	Feb 2014
Clayton Utz CLE Intensive 2014: 2050 – The new look Australia, Sydney	Panel discussant	Feb 2014
Australia-Israel Chamber of Commerce Boardroom Luncheon, Melbourne	Keynote speaker	Mar 2014
Australian National Institute of Public Policy Competition and Regulation Conference, Canberra	Competition Policy Dialogue	Mar 2014
RBA/PC Conference, Sydney	Public Infrastructure: a Framework for Decision making	Mar 2014
BCA Infrastructure and Sustainable Growth Committee Meeting, Sydney	Commission's draft report on Review into Infrastructure Financing	Mar 2014
Australian Automobile Association Policy Forum, Canberra	Keynote speaker	Mar 2014

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**Table E.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Peter Harris AO, Chair (continued)</b>		
CEDA Council on Economic Policy, Melbourne	Financial system inquiry (Murray Inquiry) and its implications for Productivity	Mar 2014
COAG SOM, Melbourne	Commission's draft report on Review into Infrastructure Financing	Mar 2014
PM&C Infrastructure Working Group, Melbourne	Keynote speaker	April 2014
Horton International Boardroom Luncheon, Melbourne	Guest speaker: Productivity and Australia's Economic Future	April 2014
CEDA Queensland 2014 Infrastructure series luncheon, Brisbane	Keynote Speaker	May 2014
International CEO Forum Luncheon, Sydney	Guest Speaker	May 2014
National Library of Australia Senior Library Staff meeting, Canberra	Guest Speaker – deliver the Brian Farrell Oration	May 2014
<b>Commissioners</b>		
ANU Performance of Chinese ODI, Canberra (Mike Woods)	Discussant: China's Global Investment and Its Regulation	July 2013
Forum of Federation workshop on Services Delivery Reform in Federal Systems in a Time of Austerity, Melbourne (Mike Woods)	The challenge of austerity and the potential of joint service delivery	July 2013
NAB National Small Business Summit, Brisbane (Warren Mundy & Rosalyn Bell)	Participate in a Conversation with Australia's Top Bureaucrats and Business People	July 2013
VCOSS peak discussion, Melbourne (Alison McClelland)	Commission's SWP on Deep and Persistent Disadvantage in Australia and the role of the Commission	Aug 2013
Independent House Pricing Authority Workshop, Sydney (Mike Woods)	Discussant: Introduction of normative pricing into public hospital activity based funding in Australia	Aug 2013
Catholic Health Australia National Conference 2013, Melbourne (Mike Woods)	How are we going to finance our services in the future?	Aug 2013
Origin Foundation Board Meeting, Sydney (Mike Woods)	Commission's SWP on Deep and Persistent Disadvantage in Australia and the role of the Commission	Sept 2013
AMEC Convention The Case for Confidence, Perth (Mike Woods)	Commission's Inquiry into the non-financial barriers to mineral and energy resource exploration	Sept 2013

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**Table E.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Commissioners (continued)</b>		
Grattan Institute Staff Luncheon Meeting, Melbourne (Alison McClelland)	Challenges for Social Policy	Sept 2013
University of Central Queensland Graduation Ceremony, Sydney (Wendy Craik)	Graduation address	Sept 2013
The Australian APEC Study Centre, RMIT University Policy dialogue on enhancing the investment environment in APEC and ASEAN economies, Beijing (Jonathan Coppel)	The role of policy benchmarking to enhance investment; and the value of quantitative measures to demonstrate improving investments environment	Sept 2013
Brotherhood of St Laurence Luncheon Seminar Series, Melbourne (Alison McClelland)	Unpacking disadvantage	Sept 2013
Reichstein Foundation Philanthropic Roundtable, Melbourne (Alison McClelland & Jenny Gordon)	Reflections on the Commission's SWP on Deep & Persistent Disadvantage in Australia	Oct 2013
Australian Council of Pro Vice Chancellors and Deans of Health Sciences National Meeting, Brisbane (Mike Woods)	Discussant on accreditation, registration, labour mobility and health workforce productivity	Oct 2013
Productivity Commission, Social Policy Institute, Crawford School and HC Coombs Policy Forum, Canberra (Mike Woods, Alison McClelland, Jenny Gordon, Rosalie McLachlan & Geoff Gilfillan)	Commission's SWP on Deep & Persistent Disadvantage in Australia and the role of the Commission	Oct 2013
Anti-Poverty week, Melbourne (Alison McClelland)	Unpacking disadvantage: what story does the data tell?	Oct 2013
CEDA Development of Australia 'The tipping point for aged care', Melbourne (Mike Woods)	Living longer, living better – reform update and outlook	Oct 2013
Crawford School of Public Policy Asia's Economic Challenges and Policy Choices Conference, Canberra (Mike Woods)	Public policy issues	Nov 2013
Philanthropy Ageing Futures Affinity Group meeting, Melbourne (Alison McClelland)	Changing government, business and community thinking about ageing	Nov 2013
University of Glasgow Strategic Foresight Lecture Series, Glasgow (Warren Mundy)	The Future of Aviation	Dec 2013
University of Glasgow: Regulating an Independent Economy: Public Policy in an Independent Scotland, Glasgow (Warren Mundy)	Regulating in an independent Scotland: a view from the Far South	Dec 2013

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**Table E.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Commissioners</b> <i>(continued)</i>		
37th Annual Conference of the Australia and New Zealand Regional Science Association International, Gold Coast (Alison McClelland & Mary Cavar)	Commission's draft report on Geographic Labour Mobility	Dec 2013
Fair Work Ombudsman Executive Meeting, Melbourne (Warren Mundy)	Commission's final report into Regulator Engagement with Small Business	Jan 2014
Swiss Re Annual Investment Conference, Sydney (Karen Chester)	Plenary Session: Risk management and global interconnectedness	Mar 2014
CEDA Trustee Lunch & Discussion, Melbourne (Alison McClelland)	Australia Adjusting Enabling a mobile workforce	Mar 2014
Philanthropy Australia Affinity Group meeting, Melbourne	Ageing and disadvantage	Mar 2014
2014 APPEA Conference & Exhibition, Perth (Mike Woods)	Guest speaker: Policy in consistency across energy markets: the case for a wide-scale review	April 2014
Timeliness in the Justice System: Ideas and Innovations Forum, Melbourne (Warren Mundy)	Panellist: Issues in Timeliness	May 2014
ANU College of Law, Canberra (Warren Mundy)	Commission's draft report on Access to Justice	May 2014
Luncheon Forum with Julia Irwin, Rowntree Foundation, Melbourne	Poverty and Inequality	May 2014
Enhancing the investment environment in APEC and ASEAN capacity building training program, Melbourne ( Jonathan Coppel)	Evaluating the value of using quantitative and qualitative indicators for APEC economies	June 2014
ANU Risk and Uncertainty Management, Melbourne (Jonathan Coppel)	Commission's inquiry into Natural Disaster Funding	June 2014
Australian Small Business White Paper Summit, Canberra (Warren Mundy)	Keynote speaker	June 2014
Digital Rural Futures Conference, Toowoomba (Wendy Craik)	Reflections on Regional Futures: Adjustment and Change in Agriculture and Regions	June 2014
<b>Staff</b>		
42 <sup>nd</sup> Australian Conference of Economists, Perth (Tim Murray)	The role of modelling in evaluating Trans-Tasman recognition of imputation credits	July 2013
Inaugural meeting of the Expert Advisory Group for the Australian Gambling Research Centre, Melbourne(Ralph Lattimore)	Priorities and opportunities in gambling research	July 2013

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**Table E.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Staff (continued)</b>		
42 <sup>nd</sup> Australian Conference of Economists, Perth (Tim Murray)	The role of modelling in evaluating Trans-Tasman recognition of imputation credits	July 2013
Inaugural meeting of the Expert Advisory Group for the Australian Gambling Research Centre, Melbourne(Ralph Lattimore)	Priorities and opportunities in gambling research	July 2013
Melbourne Institute Public Economics Forum, Canberra (Meredith Baker)	Education and training investments: do young people make good decisions?	July 2013
Singapore Senior Management Program Dialogue, Canberra (Alan Johnston & Colin Clarke)	A productive & resilient Australian economy in the Asian Century	July 2013
Treasury Seminar, Canberra (Ralph Lattimore)	Innovation	Aug 2013
HILDA Survey Research Conference 2013, Melbourne (Jane Fry & Clare Boulton)	Transition pathways in HILDA using optimal matching and cluster analysis	Oct 2013
Monash University Problem Gambling: An Interdisciplinary Dialogue, Melbourne (Ralph Lattimore)	An overview of gambling in Australia	Oct 2013
Australian Housing and Urban Research Institute (AHURI) National Housing Conference 2013, Adelaide (Tina Samardzija)	Affordable housing research, policy and practice	Oct 2013
Department of Employment, Education and Workplace Relations Seminar Series, Canberra (Rosalie McLachlan & Geoff Gilfillan)	Commission's SWP on Deep & Persistent Disadvantage in Australia	Nov 2013
2013 Workshop on Public Sector Human Resource Management, China (Greg Murtough)	Performance management of teachers	Nov 2013
Australian Association of Gerontology ACT Division Christmas Breakfast, Canberra (Rosalie McLachlan)	Commission's SWP on Deep & Persistent Disadvantage in Australia: How do older people fare?	Dec 2013
Australian Children's Education & Care Quality Authority Forum, Sydney (Rosalyn Bell)	Commission's inquiry into Childcare and Early Learning	Dec 2013
Excessive Gambling: prevention and harm reduction, Switzerland (Ralph Lattimore)	Costs and benefits of gambling, from the Commission's 2010 Inquiry into Gambling	Jan 2014

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**Table E.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Staff (continued)</b>		
3rd International multidisciplinary symposium on Excessive Gambling: Prevention and harm reduction, Switzerland (Ralph Lattimore)	Economics of gambling: An Australian Perspective	Jan 2014
Australian Agriculture and Resource Economic Society Annual Conference, Port Macquarie (Rick Baker)	Environmental Policy Analysis: A Guide to Non-Market Valuation	Feb 2014
From Knowledge to Action - Australian Early Development Index (AEDI) Symposium, Melbourne (Jackie De Vries)	Early Childhood Development	Feb 2014
Australasian Rail Association Constructors Group, Melbourne (Anthony Housego)	Infrastructure construction costs and the Productivity Commission's recent Draft Report on Public Infrastructure	Mar 2014
Adult Learning Australia forum: From LLN to Foundation Skills, Melbourne (Anthony Shomos)	Commission's SWP on literacy and numeracy skills	Mar 2014
International Seminar Australia-Indonesia High Level Policy Dialogue 2014, Jakarta (Jenny Gordon)	Managing Structural Reform: Lesson Learn from Australia	April 2014
Office of Regional Economic Integration Workshop and Asian Development Bank Seminar, Manila (Xiao-guang Zhang)	Workshop on CGE models and regional economic integration and the seminar on Modelling economic integration and income distribution	May 2014
National Regulators, Canberra (Daryl Quinlivan)	Information: the currency of the digital economy	May 2014
IPPA Victoria's State Summit, Melbourne (Jenny Gordon)	Guest Speaker: Session – Productivity or efficiency?	June 2014

**Table E.2 International delegations and visitors, 2013-14**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
Mr York Yaw-Chung, Director-General, Department of Economics, Energy and Agriculture for the Cabinet, Taiwan	Structural reform in Australia	July 2013 (C)
Mr Bernardina da Costa Pereira, Timor Leste Ministry of Finance	The Commission's role & activities	July 2013 (C)
Lao PDR Ministerial delegation	Economic assessment and Regulatory Impact Analysis. Lessons from RIA implementation in Australia	Aug 2013 (C)
Dr Wah Wah Maung, Deputy Director General, Foreign Economic Relations Department, Ministry of National Planning and Economic Development, Myanmar	The Commission's role & activities	Aug 2013 (C)
Myanmar delegation	The Commission's role & activities	Aug 2013 (C)
Liberian Government delegation	The Commission's role and activities	Sept 2013 (C)
Mr Dedi Riyadi, Executive Secretary, Indonesia Ministry of Planning (BAPPENAS)	The Commission's role & activities. Performance monitoring. Case studies on labour markets, trade and natural resources	Sept 2013 (C)
Legislative Affairs Office of the State Council of China	The Commission's role and activities	Nov 2013 (C)
Mr Charnchao Chaiyanukij, Deputy Permanent Secretary for Justice, Thailand	Structural reform in Australia and the role of the Commission	Nov 2013 (C)
Korean Fair Trade Commission	Regulation reform and the energy sector	Dec 2013 (M)
Mr Pradeep Mehta, (founder) Secretary General & Mr Dipul Chatterjee, Deputy Executive Director, Consumer Unity & Trust Society (CUTS) International, India	Economic reform in federal systems	Feb 2014 (C)
Mr Kenichi Kawasaki, National Graduate Institute for Policy Studies, Japan	Bilateral and Regional Trade Agreements	Mar 2014 (C)
Dr Hoang Xuan Hoa, Director-General, Department of Economics, Economic Commission of the Communist Party of Vietnam's Central Committee	The Commission's role and activities	June 2014 (C)
OECD Delegation	OECD Economic Survey of Australia	June 2014 (M)

(C) Canberra (M) Melbourne

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## F Publications

This appendix provides a list of Commission inquiry and research reports, Commission research papers and major speeches by the Chair in 2013-14. 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.

- *Regulator Engagement with Small Business*, Draft Report, 3 July 2013
- *Major Project Development Assessment Processes*, Draft Report, 5 August 2013
- *Geographic Labour Mobility*, Draft Report, 3 December 2013
- *Australia's Automotive Manufacturing Industry*, Preliminary Findings Report, 31 January 2014
- *Tasmanian Shipping and Freight*, Draft Report, 24 January 2014
- *Public Infrastructure*, Draft Report, 13 March 2014
- *Access to Justice Arrangements*, Draft Report, 8 April 2014
- *Safeguards Inquiry into the Import of Processed Fruit Products*, 24 January 2014
- *Costs of Doing Business: Dairy Product Manufacturing*, Interim Report, 6 June 2014
- *Costs of Doing Business: Retail Trade Industry*, Interim Report, 6 June 2014.

#### 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. Publications marked with an asterisk (\*) are yet to be released.

- 
- *Mineral and Energy Resource Exploration*, Final Inquiry Report No. 65, 27 September 2013
  - *Regulator Engagement with Small Business*, Research Report, September 2013
  - *National Access Regime*, Final Inquiry Report No. 66, 25 October 2013
  - *Major Project Development Assessment Processes*, Research Report, November 2013
  - *Safeguards Inquiry into the Import of Processed Fruit Products*, Final Inquiry Report No. 67, 12 December 2013
  - *Safeguards Inquiry into the Import of Processed Tomato Products*, Final Inquiry Report No. 68, 12 December 2013
  - *Tasmanian Shipping and Freight*, Final Inquiry Report No. 69, 7 March 2014
  - *Australia's Automotive Manufacturing Industry*, Final Inquiry Report No. 70, 31 March 2014
  - *Geographic Labour Mobility*, Research Report, May 2014
  - *Public Infrastructure*, Final Inquiry Report No. 71, 27 May 2014.

## Performance reporting

### Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent CanPrint Communications and from the Commission's website.

- *Report on Government Services 2014*, Volume A: Approach to performance reporting; Volume B: Child care, education and training; Volume C: Justice; Volume D: Emergency Management; Volume E: Health; Volume F: Community services; Volume G: Housing and Homelessness (January 2014)
- *Report on Government Services 2014: Indigenous Compendium (April 2014)*
- National Agreement performance information 2012-13: National Healthcare Agreement (December 2013)
- National Agreement performance information 2011-12: National Affordable Housing Agreement (December 2012)
- National Agreement performance information 2011-12: National Disability Agreement (December 2012)
- National Agreement performance information 2012-13: National Indigenous Reform Agreement (December 2013)

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- National Agreement performance information 2012-13: National Affordable Housing Agreement (December 2013)
  - National Agreement performance information 2012-13: National Disability Agreement (December 2013)
  - National Agreement performance information 2013: National Agreement for Skills and Workforce Development (April 2014)
  - National Agreement performance information 2013: National Education Agreement (April 2014).

## Supporting 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. Requests for printed copies of publications marked with an asterisk (\*) should be directed to the Commission.

### Annual Reports

- *Looking Back on Structural Change in Australia: 2002-2012* (Supplement to Annual Report 2011-12)
- *Annual Report 2012-13* (October 2013)
- *Trade & Assistance Review 2012-13* (June 2014)
- *PC Productivity Update* (April 2014).

### Chairman's speeches

Copies of the following speech by Peter Harris is available from the Commission's website.

- *Productivity and the National Income Outlook* (September 2013)
- *Observations on Productivity, National Income and the Demographic Outlook* (November 2013).
- *Productivity in Government* (February 2014).
- *Competition Policy and Deregulation: challenges and choices* (March 2014).
- *Address to the Australian Automobile Association* (March 2014)
- *Infrastructure for an Ageing Australia* (May 2014)
- *2014 Annual Stockbrokers Conference* (May 2014).

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## Richard Snape Lecture

The ninth Richard Snape Lecture was held on 26 November 2012. The lecture is available on the Commission's website.

- *Indian Economy: Retrospect and Prospect*, Arvind Panagariya (November 2013)
- *Creating a Learning Society: A New Approach to Growth, Development and Social Progress*, Professor Joseph Stiglitz (June 2014).

## Staff working papers

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

- *Deep and Persistent Disadvantage in Australia* (July 2013)
- *Prevalence of Transition Pathways in Australia* (August 2013)
- *Productivity in Manufacturing: Measurement and Interpretation* (December 2013)
- *Environmental Policy Analysis: A Guide to Non-Market Valuation* (January 2014)
- *Literacy and Numeracy Skills and Labour Market Outcomes in Australia*, (May 2014).

## 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 Input-Output Tables: uses and abuses* (October 2013).

## Submissions

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

- *Submission to the Agricultural Competitiveness Taskforce* (April 2014)
- *Submission to the Competition Policy Review* (June 2014).

## Other publications

Copies of these publications are available from the Commission and its website.

- PC Update, a newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 52, December 2012, Issue 53, May 2013, Issue 54, September 2013, Issue 55, February 2014).

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# G Financial statements

**This appendix presents the audited financial statements for the Productivity Commission for 2013-14.**

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## INDEPENDENT AUDITOR'S REPORT

### To the Treasurer

I have audited the accompanying financial statements of the Productivity Commission for the year ended 30 June 2014, which comprise: a 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 comprising a Summary of Significant Accounting Policies and other explanatory information.

#### *Chairman's Responsibility for the Financial Statements*

The Chairman of the Productivity Commission is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of financial statements that give a true and fair view and 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 Productivity Commission's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Productivity Commission's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chairman of the Productivity Commission, 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) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders, including the Productivity Commission's financial position as at 30 June 2014 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  
21 August 2014



Australian Government  
Productivity Commission

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Melbourne VIC 8003  
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Facsimile 03 9653 2199  
[www.pc.gov.au](http://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 2014 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Handwritten signature of Peter Harris AO in black ink.

Peter Harris AO  
Chairman

20 August 2014

Handwritten signature of Brian Scammell in black ink.

Brian Scammell  
Chief Finance Officer

20 August 2014

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## Statement of Comprehensive Income

for the period ended 30 June 2014

		<b>2014</b>	2013
	Notes	<b>\$'000</b>	\$'000
<b>EXPENSES</b>			
Employee benefits	3A	<b>29,544</b>	29,155
Supplier expenses	3B	<b>6,667</b>	7,129
Depreciation and amortisation	3C	<b>1,071</b>	970
Finance costs	3D	<b>17</b>	74
Write-down and impairment of assets	3E	<b>—</b>	<u>53</u>
<b>Total Expenses</b>		<b><u>37,299</u></b>	<u>37,381</u>
<b>OWN-SOURCE INCOME</b>			
<b>Own-source revenue</b>			
Sale of goods and rendering of services	4A	<u>885</u>	<u>1,071</u>
<b>Total own-source revenue</b>		<b><u>885</u></b>	<u>1,071</u>
<b>Gains</b>			
Resources received free of charge	4B	<u>50</u>	<u>40</u>
<b>Total gains</b>		<b><u>50</u></b>	<u>40</u>
<b>Total own-source income</b>		<b><u>935</u></b>	<u>1,111</u>
<b>Net cost of services</b>		<b><u>36,364</u></b>	<u>36,270</u>
Revenue from Government	4C	<b><u>36,359</u></b>	<u>37,429</u>
<b>Surplus / (Deficit)</b>		<b><u>(5)</u></b>	<u>1,159</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Changes in asset revaluation surplus		<u>—</u>	<u>617</u>
<b>Total comprehensive income</b>		<b><u>(5)</u></b>	<u>1,776</u>

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

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## Statement of Financial Position

as at 30 June 2014

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		<b>2014</b>	2013
	Notes	\$'000	\$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	6A	<b>335</b>	468
Trade and other receivables	6B	<b><u>24,356</u></b>	<u>23,277</u>
<b>Total financial assets</b>		<b><u>24,691</u></b>	<u>23,745</u>
<b>Non-Financial Assets</b>			
Leasehold improvements	7A	<b>4,142</b>	4,960
Property, plant and equipment	7B, D	<b>558</b>	717
Intangibles	7C, D	<b>148</b>	155
Other non-financial assets	7E	<b><u>275</u></b>	<u>498</u>
<b>Total non-financial assets</b>		<b><u>5,123</u></b>	<u>6,330</u>
<b>Total Assets</b>		<b><u>29,814</u></b>	<u>30,075</u>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	8A	<b>415</b>	379
Other payables	8B	<b><u>3,756</u></b>	<u>3,607</u>
<b>Total payables</b>		<b><u>4,171</u></b>	<u>3,986</u>
<b>Provisions</b>			
Employee provisions	9A	<b>11,914</b>	12,651
Other provisions	9B	<b><u>497</u></b>	<u>480</u>
<b>Total provisions</b>		<b><u>12,411</u></b>	<u>13,131</u>
<b>Total Liabilities</b>		<b><u>16,582</u></b>	<u>17,117</u>
<b>Net Assets</b>		<b><u>13,232</u></b>	<u>12,958</u>
<b>EQUITY</b>			
Contributed equity		<b>2,714</b>	2,435
Reserves		<b>2,771</b>	2,771
Retained surplus		<b><u>7,747</u></b>	<u>7,752</u>
<b>Total Equity</b>		<b><u>13,232</u></b>	<u>12,958</u>

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

## Statement of Changes in Equity

for the period ending 30 June 2014

Item	Retained earnings		Asset revaluation surplus		Contributed equity		Total equity	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance</b>								
Balance carried forward from previous period	<b>7,752</b>	6,593	<b>2,771</b>	2,154	<b>2,435</b>	2,155	<b>12,958</b>	10,902
<b>Comprehensive Income</b>								
Other comprehensive income	-	-	-	617	-	-	-	617
Surplus/(Deficit) for the period	<b>(5)</b>	1,159	-	-	-	-	<b>(5)</b>	1,159
<b>Total comprehensive income</b>	<b>(5)</b>	1,159	-	617	-	-	<b>(5)</b>	1,781
<b>Transactions with owners</b>								
<b>Contributions by Owners</b>								
Departmental capital budget	-	-	-	-	<b>279</b>	280	<b>279</b>	280
<b>Sub-total transactions with owners</b>	-	-	-	-	<b>279</b>	280	<b>279</b>	280
<b>Closing balance as at 30 June</b>	<b>7,747</b>	7,752	<b>2,771</b>	2,771	<b>2,714</b>	2,435	<b>13,232</b>	12,958

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

## Cash Flow Statement

for the period ended 30 June 2014

		<b>2014</b>	2013
	Notes	<b>\$'000</b>	\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		<b>36,500</b>	36,081
Sales of goods and rendering of services		<b>843</b>	1,211
Net GST received		<u><b>640</b></u>	<u>645</u>
<b>Total cash received</b>		<b><u>37,983</u></b>	<u>37,937</u>
<b>Cash used</b>			
Employees		<b>30,236</b>	28,217
Suppliers		<b>6,908</b>	7,682
Section 31 receipts transferred to OPA		<u><b>972</b></u>	<u>1,927</u>
<b>Total cash used</b>		<b><u>38,116</u></b>	<u>37,826</u>
<b>Net cash from (used by) operating activities</b>	10	<u><b>(133)</b></u>	<u>111</u>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of property, plant and equipment		<u>-</u>	<u>-</u>
<b>Total cash received</b>		<u>-</u>	<u>-</u>
<b>Cash used</b>			
Purchase of property, plant and equipment		<u><b>87</b></u>	<u>405</u>
<b>Total cash used</b>		<u><b>87</b></u>	<u>405</u>
<b>Net cash (used by) investing activities</b>		<u><b>(87)</b></u>	<u>(405)</u>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Contributed equity		<u><b>87</b></u>	<u>405</u>
<b>Total cash received</b>		<u><b>87</b></u>	<u>405</u>
<b>Net cash from financing activities</b>		<u><b>87</b></u>	<u>405</u>
<b>Net increase (decrease) in cash held</b>		<b>(133)</b>	111
Cash and cash equivalents at the beginning of the reporting period		<u><b>468</b></u>	<u>357</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	6A	<u><b>335</b></u>	<u>468</u>

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

## Schedule of Commitments

as at 30 June 2014

	2014	2013
	\$'000	\$'000
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
GST recoverable on commitments	<u>(1,751)</u>	<u>(2,048)</u>
<b>Total commitments receivable</b>	<u>(1,751)</u>	<u>(2,048)</u>
<b>Commitments payable</b>		
<b>Other commitments</b>		
Operating leases <sup>1</sup>	18,807	22,063
Other commitments <sup>2</sup>	<u>450</u>	<u>468</u>
<b>Total other commitments</b>	<u>19,257</u>	<u>22,531</u>
<b>Net commitments by type</b>	<u>17,506</u>	<u>20,483</u>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Other commitments receivable</b>		
One year or less	(351)	(329)
From one to five years	(1,026)	(1,161)
Over five years	<u>(374)</u>	<u>(558)</u>
<b>Total other commitments receivable</b>	<u>(1,751)</u>	<u>(2,048)</u>
<b>Commitments payable</b>		
<b>Operating lease commitments</b>		
One year or less	3,471	3,185
From one to five years	11,222	12,735
Over five years	<u>4,114</u>	<u>6,143</u>
<b>Total operating lease commitments</b>	<u>18,807</u>	<u>22,063</u>
<b>Other commitments</b>		
One year or less	388	433
From one to five years	62	35
Over five years	<u>—</u>	<u>—</u>
<b>Total other commitments</b>	<u>450</u>	<u>468</u>
<b>Net commitments by maturity</b>	<u>17,506</u>	<u>20,483</u>

Note: Commitments are GST inclusive where relevant.

<sup>1</sup> Operating leases included are effectively non-cancellable and comprise:

### **Leases for office accommodation and carparking**

Lease payments are subject to 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.

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***Agreements for the provision of motor vehicles to senior executive officers***

Lease payments are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

<sup>2</sup> Other commitments are primarily contracts for office services.

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

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## Notes to and forming part of the Financial Statements

<b>Note</b>	<b>Description</b>
1	Summary of Significant Accounting Policies
2	Events after the Reporting Period
3	Expenses
4	Income
5	Fair Value Measurement
6	Financial Assets
7	Non-Financial Assets
8	Payables
9	Provisions
10	Cash Flow Reconciliation
11	Contingent Liabilities and Assets
12	Senior Executive Remuneration
13	Remuneration of Auditors
14	Financial Instruments
15	Financial Assets Reconciliation
16	Appropriations
17	Compensation and Debt Relief
18	Reporting of Outcomes
19	Net Cash Appropriation Arrangements

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## **Note 1: Summary of Significant Accounting Policies**

### **1.1 Objectives of the Productivity Commission**

The Productivity Commission (the Commission) is an Australian Government controlled 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 a not-for-profit entity.

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.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Legal advice received by the Department of Finance indicated there could be breaches of Section 83 of the Constitution under certain circumstances in relation to compliance with statutory conditions on payments from special appropriations, including special accounts, payments for long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal. The Commission has reviewed its processes and controls over payments for these items to minimise the possibility for future breaches as a result of these payments. Following an updated risk assessment in 2013-14 the Commission has determined that there is a low risk of the certain circumstances mentioned in the legal advice applying to the Commission. The Commission is not aware of any specific breaches of Section 83 in respect of these items.

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## 1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 49 of the *Financial Management and Accountability Act 1997*.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; 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 FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Commission or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under 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 fair value 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.

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

## **1.4 New Australian Accounting Standards**

### Adoption of New Australian Accounting Standard Requirements

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

New standards, 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 the current reporting period did not have a material effect, and are not expected to have a future material effect on the Commission's financial statements.

## Future Australian Accounting Standard Requirements

Standard/ Interpretation	Application date for the entity <sup>1</sup>	Nature of impending change/s in accounting policy and likely impact on initial application
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i> [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	1 Jan 2015	<p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> <li>- The change attributable to changes in credit risk are presented in other comprehensive income (OCI).</li> <li>- The remaining change is presented in profit or loss.</li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Likely impact: May have a significant impact on the recognition and measurement of financial instruments. However likely impact is disclosure only. Final outcome will need to be considered once the standard(s) take effect.</p>
AASB 9 Financial Instruments	1 Jan 2017	<p>AASB 9 incorporates:</p> <ul style="list-style-type: none"> <li>- the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets (representing the first phase of a three phase project to replace AASB 139); and</li> <li>- hedge accounting (representing the third phase).</li> </ul> <p>Likely impact: May have a significant impact on the recognition and measurement of financial instruments. However likely impact is disclosure only. Final outcome will need to be considered once standard(s) take effect.</p>

<sup>1</sup>. The entity's expected initial application date is when the accounting standard becomes operative at the beginning of the entity's reporting period.

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 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.

### 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 Gains**

### Resources Received Free of Charge

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

Resources received free of charge are recorded as either revenue or gains depending on their nature.

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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 1.7).

### Sale of Assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

## **1.7 Transactions with the Government as Owner**

### Equity Injections

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

### Other Distributions to Owners

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

## **1.8 Employee Benefits**

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of 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.

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## Leave

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

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

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

## Separation and Redundancy

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 \$152,410 (2013: \$837,708).

## 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 and Deregulation'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.

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The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

## **1.9 Leases**

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property, or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

## **1.10 Borrowing Costs**

All borrowing costs are expensed as incurred.

## **1.11 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.

## **1.12 Financial Assets**

The Commission classifies its financial assets in the following categories:

- 
- a) financial assets as at fair value through profit or loss;
  - b) held-to-maturity investments;
  - c) available-for-sale financial assets; and
  - d) loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Commission currently only holds financial assets of loans and receivables.

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

### Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

### Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. 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.

## **1.13 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.

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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).

## **1.14 Contingent Liabilities and Contingent Assets**

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

Details of each class of contingent liabilities and contingent assets are disclosed in Note 11: Contingent Liabilities and Contingent Assets.

## **1.15 Acquisition of Assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor’s accounts immediately prior to the restructuring.

## **1.16 Property, Plant and Equipment**

### Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

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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

Fair values for each class of asset are determined as shown below:

<i>Asset class</i>	<i>Fair value measured at</i>
Leasehold improvements	Depreciated replacement cost
Property, plant and equipment	Market selling price

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.

At 30 June 2014 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.

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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:

	<b>2014</b>	<b>2013</b>
Leasehold improvements and make-good	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 to 20 years</b>	3 to 20 years
Intangibles (computer software)	<b>5 years</b>	5 years

### Impairment

All assets were assessed for impairment at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

### Derecognition

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

## **1.17 Intangibles**

The Commission's intangibles comprise commercially purchased software 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 (2013: 5 years).

All software assets were assessed for indications of impairment as at 30 June 2014.

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## **1.18 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.

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## Note 3: Expenses

### Note 3A: Employee Benefits

	2014	2013
	\$'000	\$'000
Wages and salaries	21,076	21,081
Superannuation:		
Defined contribution plans	1,169	1,163
Defined benefit plans	2,776	3,015
Leave and other entitlements	3,041	2,885
Separation and redundancies	<u>1,482</u>	<u>1,011</u>
<b>Total employee benefits</b>	<b><u>29,544</u></b>	<b><u>29,155</u></b>

### Note 3B: Suppliers

	2014	2013
	\$'000	\$'000
<b>Goods and services supplied or rendered</b>		
Consultants	27	37
Contractors	174	115
Travel	856	1,204
IT services	612	717
Other administration expenses	<u>1,873</u>	<u>2,203</u>
<b>Total goods and services supplied or rendered</b>	<b><u>3,542</u></b>	<b><u>4,276</u></b>
<i>Goods supplied in connection with</i>		
Related entities	4	5
External parties	<u>134</u>	<u>226</u>
<b>Total goods supplied</b>	<b><u>138</u></b>	<b><u>231</u></b>
<i>Services rendered in connection with</i>		
Related entities	468	256
External parties	<u>2,936</u>	<u>3,789</u>
<b>Total services rendered</b>	<b><u>3,404</u></b>	<b><u>4,045</u></b>
<b>Total goods and services supplied or rendered</b>	<b><u>3,542</u></b>	<b><u>4,276</u></b>
<b>Other supplier expenses</b>		
<i>Operating lease rentals in connection with</i>		
External parties:		
Minimum lease payments	3,092	2,817
Workers compensation expenses	<u>33</u>	<u>36</u>
<b>Total other supplier expenses</b>	<b><u>3,125</u></b>	<b><u>2,853</u></b>
<b>Total supplier expenses</b>	<b><u>6,667</u></b>	<b><u>7,129</u></b>

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### Note 3C: Depreciation and Amortisation

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation:		
Buildings - leasehold improvements	<b>818</b>	724
Property, plant and equipment	<u><b>205</b></u>	<u>213</u>
<b>Total depreciation</b>	<u><b>1,023</b></u>	<u>937</u>
Amortisation:		
Intangibles:		
Computer software	<u><b>48</b></u>	<u>33</u>
<b>Total amortisation</b>	<u><b>48</b></u>	<u>33</u>
<b>Total depreciation and amortisation</b>	<u><b>1,071</b></u>	<u>970</u>

### Note 3D: Finance Costs

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Unwinding of discount	<u><b>17</b></u>	<u>74</u>
<b>Total finance costs</b>	<u><b>17</b></u>	<u>74</u>

### Note 3E: Write-down and Impairment of Assets

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Asset write-downs and impairments from:		
Revaluation decrement:		
Property, plant and equipment	<u><b>-</b></u>	<u>53</u>
<b>Total write-down and impairment of assets</b>	<u><b>-</b></u>	<u>53</u>

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## Note 4: Income

### Own Source Revenue

#### Note 4A: Sale of Goods and Rendering of Services

	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
Sale of goods in connection with		
External parties	<u>4</u>	<u>6</u>
<b>Total sale of goods</b>	<b><u>4</u></b>	<b><u>6</u></b>
Rendering of services in connection with		
Related entities	<b>841</b>	1,024
External parties	<u>40</u>	<u>41</u>
<b>Total rendering of services</b>	<b><u>881</u></b>	<b><u>1,065</u></b>
<b>Total sales of goods and rendering of services</b>	<b><u><u>885</u></u></b>	<b><u><u>1,071</u></u></b>

### Gains

#### Note 4B: Resources Received Free of Charge

	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
Resources received free of charge - ANAO	<u>50</u>	<u>40</u>
<b>Total resources received free of charge</b>	<b><u><u>50</u></u></b>	<b><u><u>40</u></u></b>

### Revenue from Government

#### Note 4C: Revenue from Government

	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
Appropriations:		
Departmental appropriations <sup>1</sup>	<b><u>36,359</u></b>	<b><u>37,429</u></b>
<b>Total revenue from Government</b>	<b><u><u>36,359</u></u></b>	<b><u><u>37,429</u></u></b>

<sup>1</sup> Includes \$561,156 which has been quarantined – see Note 16.

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## Note 5: 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 5A: Fair Value Measurements

#### *Fair value measurements at the end of the reporting period by hierarchy for assets and liabilities in 2014*

	Fair value	Fair value measurements at the end of reporting period using		
		Level 1 inputs	Level 2 inputs	Level 3 inputs
	\$'000	\$'000	\$'000	\$'000
<b>Non-financial assets</b>				
Leasehold improvements	4,142	-	-	4,142
Other property, plant and equipment	<u>558</u>	<u>-</u>	<u>558</u>	<u>-</u>
<b>Total fair value measurements of assets in the statement of financial position</b>	<u>4,700</u>	<u>-</u>	<u>558</u>	<u>4,142</u>

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

Note 5B: Valuation Technique and Inputs for Level 2 and Level 3 Fair Value Measurements

**Level 2 and 3 fair value measurements - valuation technique and the inputs used for assets in 2014**

	Category (Level 2 or Level 3)	Fair value \$'000	Valuation technique(s) <sup>1</sup>	Inputs used	Range (weighted average) <sup>2</sup>
<b>Non-financial assets</b>					
Leasehold improvements	Level 3	4,142	Depreciated Replacement Cost(DRC)	Replacement Cost New (price per square metre) Useful Life (term of lease)	\$1,323 - \$1,450 (\$1,388) 9.75 - 10.00 (9.88) years
Other property, plant and equipment	Level 2	558	Market Approach	Adjusted market transactions	

<sup>1</sup> No change in valuation technique occurred during the period.

<sup>2</sup> Significant unobservable inputs only. Not applicable for assets in the Level 2 category.

There is no reconciliation required as there has been no movement other than depreciation.

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## Note 6: Financial assets

### Note 6A: Cash and Cash Equivalents

	2014	2013
	\$'000	\$'000
Cash on hand or on deposit	<u>335</u>	<u>468</u>
<b>Total cash and cash equivalents</b>	<u><u>335</u></u>	<u><u>468</u></u>

### Note 6B: Trade and Other Receivables

	2014	2013
	\$'000	\$'000
<b>Goods and services receivables in connection with</b>		
Related entities	127	41
External parties	<u>36</u>	<u>39</u>
<b>Total goods and services receivables</b>	<u>163</u>	<u>80</u>
<b>Appropriations receivable</b>		
Existing programs <sup>1</sup>	<u>24,126</u>	<u>23,103</u>
<b>Total appropriations receivable</b>	<u>24,126</u>	<u>23,103</u>
<b>Other receivables:</b>		
GST receivable from the Australian Taxation Office	56	85
Other	<u>11</u>	<u>9</u>
<b>Total other receivables</b>	<u>67</u>	<u>94</u>
<b>Total trade and other receivables (gross)</b>	<u><u>24,356</u></u>	<u><u>23,277</u></u>
Receivables are expected to be recovered in:		
No more than 12 months	24,356	23,277
More than 12 months	<u>-</u>	<u>-</u>
<b>Total trade and other receivables (net)</b>	<u><u>24,356</u></u>	<u><u>23,277</u></u>
Receivables are aged as follows:		
Not overdue	24,356	23,260
Overdue by:		
More than 90 days	<u>-</u>	<u>17</u>
<b>Total receivables (gross)</b>	<u><u>24,356</u></u>	<u><u>23,277</u></u>

Credit Terms for goods and services were within 30 days (2013: 30 days)

<sup>1</sup> Includes \$561,156 which has been quarantined – see Note 16.

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## Note 7: Non-Financial Assets

### Note 7A: Leasehold Improvements

	2014	2013
	\$'000	\$'000
Leasehold improvements:		
Fair value	4,921	4,960
Accumulated depreciation	<u>(779)</u>	<u>-</u>
<b>Total leasehold improvements</b>	<b><u>4,142</u></b>	<b><u>4,960</u></b>
<b>Total land and buildings</b>	<b><u>4,142</u></b>	<b><u>4,960</u></b>

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 7B: Property, Plant and Equipment

	2014	2013
	\$'000	\$'000
Property, plant and equipment:		
Fair value	769	722
Accumulated depreciation	<u>(211)</u>	<u>(5)</u>
<b>Total property, plant and equipment</b>	<b><u>558</u></b>	<b><u>717</u></b>

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

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

#### **Revaluations of non-financial assets**

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2013, an independent valuer from the Australian Valuation Office conducted the revaluations.

The revaluation increment for leasehold improvements and decrement for plant and equipment were credited and debited respectively to the asset revaluation reserve by asset class, and included in the equity section of the statement of financial position; decrements for plant and equipment were also expensed.

At 30 June 2014 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.

## Note 7C: Intangibles

	2014	2013
	<b>\$'000</b>	\$'000
Computer software:		
Purchased	734	693
Accumulated amortisation	<u>(586)</u>	<u>(538)</u>
<b>Total intangibles</b>	<b><u>148</u></b>	<b><u>155</u></b>

No indicators of impairment were found for intangible assets.

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

## Note 7D: Analysis of Property, Plant and Equipment, and Intangibles

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

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

*Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2012-13)*

	<i>Leasehold improvements</i>	<i>Property, plant &amp; equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2012</b>				
Gross book value	6,077	1,125	573	7,775
Accumulated depreciation / amortisation and impairment	<u>(1,089)</u>	<u>(348)</u>	<u>(505)</u>	<u>(1,942)</u>
<b>Net book value 1 July 2012</b>	<u>4,988</u>	<u>777</u>	<u>68</u>	<u>5,833</u>
Additions:				
By purchase	–	285	120	405
Revaluations and impairments recognised in other comprehensive income	696	(79)	–	617
Revaluation recognised in net cost of services	–	(53)	–	(53)
Depreciation / amortisation expense	<u>(724)</u>	<u>(213)</u>	<u>(33)</u>	<u>(970)</u>
<b>Net book value 30 June 2013</b>	<u>4,960</u>	<u>717</u>	<u>155</u>	<u>5,832</u>
<b>Net book value as of 30 June 2013 represented by:</b>				
Gross book value	4,960	722	693	6,375
Accumulated depreciation/amortisation and impairment	<u>–</u>	<u>(5)</u>	<u>(538)</u>	<u>(543)</u>
<b>Net book value as of 30 June 2013</b>	<u>4,960</u>	<u>717</u>	<u>155</u>	<u>5,832</u>

**Note 7E: Other Non-financial Assets**

	<b>2014</b>	<b>2013</b>
	\$'000	\$'000
Prepayments	<u>275</u>	<u>498</u>
<b>Total other non-financial assets</b>	<u>275</u>	<u>498</u>
Total other non-financial assets – are expected to be recovered in:		
No more than 12 months	<u>275</u>	<u>498</u>
<b>Total other non-financial assets</b>	<u>275</u>	<u>498</u>

No indicators of impairment were found for other non-financial assets.

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## Note 8: Payables

### Note 8A: Suppliers

	2014	2013
	\$'000	\$'000
Trade creditors and accruals	<u>415</u>	<u>379</u>
<b>Total suppliers payables</b>	<b><u>415</u></b>	<b><u>379</u></b>
Supplier payables expected to be settled		
No more than 12 months	415	379
More than 12 months	<u>-</u>	<u>-</u>
<b>Total suppliers payables</b>	<b><u>415</u></b>	<b><u>379</u></b>
Supplier payables in connection with		
Related entities	197	54
External parties	<u>218</u>	<u>325</u>
<b>Total suppliers payables</b>	<b><u>415</u></b>	<b><u>379</u></b>

Settlement was usually made within 30 days.

### Note 8B: Other Payables

	2014	2013
	\$'000	\$'000
Wages and salaries	660	617
Superannuation	113	106
Prepayments received/unearned income	145	110
Rent (lease) payable	1,279	987
Lease incentive	1,559	1,784
Other	<u>-</u>	<u>3</u>
<b>Total other payables</b>	<b><u>3,756</u></b>	<b><u>3,607</u></b>
Other payables expected to be settled		
No more than 12 months	1,143	1,061
More than 12 months	<u>2,613</u>	<u>2,546</u>
<b>Total other payables</b>	<b><u>3,756</u></b>	<b><u>3,607</u></b>

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## Note 9: Provisions

### Note 9A: Employee Provisions

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Leave	<b>11,762</b>	11,813
Separations and redundancies	<u><b>152</b></u>	<u>838</u>
<b>Total employee provisions</b>	<u><b>11,914</b></u>	<u><b>12,651</b></u>
Employee provisions expected to be settled		
No more than 12 months	<b>229</b>	1,052
More than 12 months	<u><b>11,685</b></u>	<u>11,599</u>
<b>Total employee provisions</b>	<u><b>11,914</b></u>	<u><b>12,651</b></u>

### Note 9B: Other Provisions

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision for restoration obligations	<u><b>497</b></u>	<u>480</u>
<b>Total other provisions</b>	<u><b>497</b></u>	<u><b>480</b></u>
Other provisions expected to be settled		
More than 12 months	<u><b>497</b></u>	<u>480</u>
<b>Total other provisions</b>	<u><b>497</b></u>	<u><b>480</b></u>

	<b>Provision for restoration \$'000</b>
<b>Carrying amount 1 July 2013</b>	<b>480</b>
Additional provisions made	-
Amounts used	-
Unwinding of discount or change in discount rate	<u><b>17</b></u>
<b>Closing balance 2014</b>	<u><b>497</b></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 10: Cash Flow Reconciliation

	2014	2013
	\$'000	\$'000
<b>Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement</b>		
<b>Cash and cash equivalents as per</b>		
Cash flow statement	335	468
Statement of financial position	<u>335</u>	<u>468</u>
<b>Discrepancy</b>	<u>=</u>	<u>=</u>
<b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net cost of services	(36,364)	(36,270)
Revenue from Government	36,359	37,429
<b>Adjustments for non-cash items</b>		
Depreciation / amortisation	1,071	970
Net write down of non-financial assets	-	53
(Gain) / loss on disposal of assets	-	-
<b>Movements in assets / liabilities:</b>		
<b>Assets</b>		
(Increase) / decrease in net receivables	(887)	(3,263)
(Increase) / decrease in prepayments	223	130
<b>Liabilities</b>		
Increase / (decrease) in employee provisions	(737)	930
Increase / (decrease) in supplier payables	36	84
Increase / (decrease) in other payables	149	(26)
Increase / (decrease) in other provisions	<u>17</u>	<u>74</u>
<b>Net cash from / (used by) operating activities</b>	<u>(133)</u>	<u>111</u>

## Note 11: Contingent Assets and Liabilities

At 30 June 2014, 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. (2013: Nil)

The Commission had no significant remote contingencies.

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## Note 12: Senior Executive Remuneration

### Note 12A: Senior Executive Remuneration Expense for the Reporting Period

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Short-term employee benefits:</b>		
Salary	<b>6,198,316</b>	5,874,968
Performance bonus	<u>-</u>	<u>-</u>
<b>Total short-term employee benefits</b>	<b><u>6,198,316</u></b>	<b><u>5,874,968</u></b>
<b>Post-employment benefits:</b>		
Superannuation	<b><u>1,100,455</u></b>	<u>1,239,924</u>
<b>Total post-employment benefits</b>	<b><u>1,100,455</u></b>	<b><u>1,239,924</u></b>
<b>Other long-term employee benefits:</b>		
Annual leave accrued	<b>514,211</b>	477,286
Long-service leave	<b><u>167,654</u></b>	<u>155,615</u>
<b>Total other long-term employee benefits</b>	<b><u>681,865</u></b>	<b><u>632,901</u></b>
<b>Termination benefits:</b>		
Redundancy payment	<b><u>100,282</u></b>	<u>-</u>
<b>Total termination benefits</b>	<b><u>100,282</u></b>	<b><u>-</u></b>
<b>Total senior executive remuneration expenses</b>	<b><u>8,080,918</u></b>	<b><u>7,747,793</u></b>

#### Notes:

1. This note includes remuneration of members of the Commission and employees in the Senior Executive Service.
2. Note 12A is prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 12B).
3. Note 12A excludes acting arrangements and part-year service where total remuneration expensed as a senior executive was less than \$195,000. The number of senior executives included in 2014 is 29. (2013: 31)
4. During the year the Commission paid \$100,282 in termination benefits to senior executives. (2013: nil)

Note 12B: Average Annual Reportable Remuneration Paid to Substantive Senior Executives during the Reporting Period

Average annual reportable remuneration paid to substantive senior executives in 2014

<i>Average annual reportable remuneration<sup>1</sup></i>	<i>Substantive Senior Executives</i>	<i>Reportable Salary<sup>2</sup></i>	<i>Contributed Superannuation<sup>3</sup></i>	<i>Reportable allowances<sup>4</sup></i>	<i>Bonus paid<sup>5</sup></i>	<i>Total Reportable Remuneration</i>
	<i>No.</i>	<i>\$</i>	<i>\$</i>		<i>\$</i>	<i>\$</i>
<b>Total reportable remuneration (including part-time arrangements):</b>						
Less than \$195,000	10	119,909	16,422	–	–	136,331
\$195,000 to \$224,999	6	184,588	30,497	–	–	215,085
\$225,000 to \$254,999	5	205,937	34,349	–	–	240,286
\$255,000 to \$284,999	5	222,643	41,662	–	–	264,305
\$285,000 to \$314,999	1	291,099	21,801	–	–	312,900
\$315,000 to \$344,999	1	272,550	46,587	–	–	319,137
\$345,000 to \$374,999	2	300,835	52,947	–	–	353,782
\$525,000 to \$554,999	1	466,053	79,054	–	–	545,107
\$585,000 to \$614,999	1	500,565	85,761	–	–	586,326
<b>Total number of substantive senior executives</b>	<b>32</b>					

Average annual reportable remuneration paid to substantive senior executives in 2013

<i>Average annual reportable remuneration<sup>1</sup></i>	<i>Substantive Senior Executives</i>	<i>Reportable Salary<sup>2</sup></i>	<i>Contributed Superannuation<sup>3</sup></i>	<i>Reportable allowances<sup>4</sup></i>	<i>Bonus paid<sup>5</sup></i>	<i>Total Reportable Remuneration</i>
	<i>No.</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Total reportable remuneration (including part-time arrangements):</b>						
Less than \$195,000	11	108,873	16,678	–	–	125,551
\$195,000 to \$224,999	8	184,775	27,726	–	–	212,501
\$225,000 to \$254,999	9	214,430	32,035	–	–	246,465
\$285,000 to \$314,999	3	267,566	32,238	–	–	299,804
\$315,000 to \$344,999	1	270,221	53,383	–	–	323,604
\$345,000 to \$374,999	1	299,461	47,435	–	–	346,896
\$495,000 to \$524,999	1	236,689	287,421	–	–	524,110
\$525,000 to \$554,999	1	450,715	75,636	–	–	526,351
<b>Total number of substantive senior executives</b>	<b>35</b>					

**Notes:**

<sup>1</sup> This table reports members of the Commission and substantive senior executives who received remuneration during the reporting period. Each row represents an averaged figure based on headcount for the individuals in the band.

<sup>2</sup> 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
- c) reportable employer superannuation contributions; and
- d) exempt foreign employment income.

<sup>3</sup> The 'contributed superannuation' amount is the average cost to the Commission for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

<sup>4</sup> 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individual's payment summaries.

<sup>5</sup> 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the Commission during the financial year.

<sup>6</sup> The remuneration ranges for reporting substantive senior executive remuneration in this note have changed from the previous year. Prior year comparatives have been restated using the current year remuneration ranges.

Note 12C: Average Annual Reportable Remuneration Paid to Other Highly Paid Staff during the Reporting Period

Average annual reportable remuneration paid to other highly paid staff in 2014

<i>Average annual reportable remuneration<sup>1</sup></i>	<i>Staff</i>	<i>Reportable Salary<sup>2</sup></i>	<i>Contributed Superannuation<sup>3</sup></i>	<i>Reportable allowances<sup>4</sup></i>	<i>Bonus paid<sup>5</sup></i>	<i>Total Reportable Remuneration</i>
	<i>No.</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Total reportable remuneration (including part-time arrangements):</b>						
\$195,000 to \$224,999	<u>1</u>	174,422	36,534	-	-	210,956
<b>Total number of other highly paid staff</b>	<u>1</u>					

Average annual reportable remuneration paid to other highly paid staff in 2013

<i>Average annual reportable remuneration<sup>1</sup></i>	<i>Staff</i>	<i>Reportable Salary<sup>2</sup></i>	<i>Contributed Superannuation<sup>3</sup></i>	<i>Reportable allowances<sup>4</sup></i>	<i>Bonus paid<sup>5</sup></i>	<i>Total Reportable Remuneration</i>
	<i>No.</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Total reportable remuneration (including part-time arrangements):</b>						
\$195,000 to \$224,999	<u>1</u>	183,944	35,042	-	-	218,986
<b>Total number of other highly paid staff</b>	<u>1</u>					

**Notes:**

<sup>1</sup> This table reports staff:

- a) who were employed by the Commission during the reporting period;
- b) whose reportable remuneration was \$195,000 or more for the financial period; and
- c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

<sup>2</sup> 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
- c) reportable employer superannuation contributions; and

d) exempt foreign employment income.

<sup>3</sup> The 'contributed superannuation' amount is the average cost to the Commission for the provision of superannuation benefits to other highly paid staff in that reportable remuneration band during the reporting period.

<sup>4</sup> 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individual's payment summaries.

<sup>5</sup> 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the Commission during the financial year.

<sup>6</sup> The remuneration ranges for reporting remuneration of highly paid other staff in this note have changed from the previous year. Prior year comparatives have been restated using the current year remuneration ranges.

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## Note 13: Remuneration of Auditors

	2014	2013
	\$'000	\$'000
Financial statement audit services were provided free of charge to the Commission by the Australian National Audit Office (ANAO). Fair value of the services received		
Financial statement audit services	<u>50</u>	<u>40</u>
	<u>50</u>	<u>40</u>

No other services were provided by the ANAO.

## Note 14: Financial Instruments

### Note 14A: Categories of financial instruments

	2014	2013
	\$'000	\$'000
<b>Financial Assets</b>		
Loans and receivables		
Cash and cash equivalents	335	468
Trade receivables	<u>163</u>	<u>80</u>
<b>Carrying amount of financial assets</b>	<u>498</u>	<u>548</u>
<b>Financial Liabilities</b>		
At amortised cost:		
Payables – suppliers	<u>415</u>	<u>379</u>
<b>Carrying amount of financial liabilities</b>	<u>415</u>	<u>379</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 2014. (2013: 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 2014. (2013: nil)

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#### Note 14D: Fair value of financial instruments

There are no financial instruments held at 30 June 2014 where the carrying amount is not a reasonable approximation of fair value. (2013: nil)

#### Note 14E: Credit Risk

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total of trade receivables (2014: \$163,000 and 2013: \$80,000). The Commission has assessed that there is no risk of default on payment.

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

The Commission holds no collateral to mitigate against credit risk.

No financial instruments were impaired in 2014. (2013: nil)

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 6B.

#### Note 14F: Liquidity Risk

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

The Commission is appropriated funding from the Australian Government. The Commission manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Commission has policies in place to ensure timely payments are made when due and has no past record of default.

All financial liabilities mature within one year. (2013: one year)

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

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## 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

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	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><u>Financial Assets</u></b>		
<b>Total financial assets as per balance sheet</b>	<b>24,691</b>	23,745
Less: non-financial instrument components:		
Appropriations receivable	<b>24,126</b>	23,103
Other receivables	<u>67</u>	<u>94</u>
Total non-financial instrument components	<b><u>24,193</u></b>	<u>23,197</u>
<b>Total financial assets as per financial instrument note</b>	<b><u>498</u></b>	<u>548</u>

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## Note 16: Appropriations

Table A: Annual Appropriations ('Recoverable GST' exclusive)

	2014 Appropriations			Total appropriation	Appropriation applied in 2014 (current and prior years)	Variance
	Appropriation Act		FMA Act			
	Annual Appropriation	Appropriations reduced <sup>(a)</sup>	Section 31			
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Departmental</b>						
Ordinary annual services	38,233	(1,595)	972	37,610	36,720	890
<b>Total departmental</b>	<b>38,233</b>	<b>(1,595)</b>	<b>972</b>	<b>37,610</b>	<b>36,720</b>	<b>890</b>

### Notes:

- (a) Appropriations reduced under Appropriation Acts (No.1,3,5) 2013-14: sections 10, 11, and 12 and under Appropriation Acts (No.2,4,6) 2013-14: sections 12,13, and 14.
- (b) Departmental appropriations do not lapse at financial year-end. Appropriations totalling \$561,156 have been quarantined by the Department of Finance, but are not recognised as a formal reduction under Finance Ministers Orders section 101.6, and on this basis have not been reflected in the Statement of Comprehensive Income (Note 4C), in the Statement of Financial Position (Note 6B), in the table above, or in Table C.
- (c) The Departmental appropriation in Table A is inclusive of the Departmental Capital Budget appropriation in Table B.

Table A: Annual Appropriations ('Recoverable GST' exclusive) continued

	2013 Appropriations				Appropriation applied in 2013 (current and prior years)	Variance
	Appropriation Act		FMA Act	Total appropriation		
	Annual Appropriation	Appropriations reduced <sup>(a)</sup>	Section 31			
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Departmental</b>						
Ordinary annual services	37,881	–	1,927	39,808	36,375	3,433
<b>Total departmental</b>	37,881	–	1,927	39,808	36,375	3,433

**Notes:**

- (a) Appropriations reduced under Appropriation Acts (No.1,3,5) 2012-13: sections 10, 11, and 12 and under Appropriation Acts (No.2,4,6) 2012-13: sections 12,13, and 14. Departmental appropriations do not lapse at financial year-end. A reduction in the Commission's appropriation of \$172,000 was included in a cross portfolio measure in the *Mid-Year Economic Fiscal Outlook 2012-13* and also included in the comparative figures in Appropriation Act No.1 2012-13. As the Finance Minister's determination effecting the reduction was not signed until on 5 August 2013 and took legal effect on 13 August 2013, the reduction is not reflected in the table above or in Table C below.
- (b) The Departmental appropriation in Table A is inclusive of the Departmental Capital Budget appropriation in Table B.

Table B: Departmental Capital Budgets ('Recoverable GST' exclusive)

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

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

	2013 Capital Budget Appropriations		Capital Budget Appropriations applied in 2013 (current and prior years)		Variance
	<i>Appropriation Act</i>	Total Capital Budget Appropriations	Payments for non-financial assets <sup>2</sup>	Total payments	
	Annual Capital Budget				
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Departmental</b>					
Ordinary annual services Capital Budget <sup>1</sup>	280	280	405	405	(125)

**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 Table A: 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.

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

<b>Authority</b>	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Appropriation Act (No.1) 2010-11	-	336
Appropriation Act (No.1) 2011-12	-	99
Appropriation Act (No.1) 2012-13	<b>280</b>	23,308
Appropriation Act (No.1) 2013-14	<b><u>24,181</u></b>	<u>-</u>
<b>Total as at 30 June</b>	<b><u>24,461</u></b>	<b><u>23,743</u></b>

### Note 17: Compensation and Debt Relief

<b>Departmental</b>	<b>2014</b> <b>\$</b>	<b>2013</b> <b>\$</b>
No 'Act of Grace' expenses were expended during the reporting period. (2013: No expenses)	<u>-</u>	<u>-</u>
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2013: No waivers)	<u>-</u>	<u>-</u>
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2013: No payments)	<u>-</u>	<u>-</u>
No ex gratia payments were provided for during the reporting period. (2013: No payments)	<u>-</u>	<u>-</u>
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act 1999</i> (PS Act) during the reporting period. (2013: No payments)	<u>-</u>	<u>-</u>

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## Note 18: Reporting of Outcomes

### Note 18A: Net Cost of Outcome Delivery

	<i>Outcome 1</i>	
	<i>2014</i>	<i>2013</i>
	<i>\$'000</i>	<i>\$'000</i>
<b>Departmental</b>		
Expenses	<b>37,299</b>	37,381
Own-source income	<b><u>935</u></b>	<u>1,111</u>
<b>Net cost of outcome delivery</b>	<b><u>36,364</u></b>	<u>36,270</u>

## Note 19: Net Cash Appropriation Arrangements

	<i>2014</i>	<i>2013</i>
	<i>\$'000</i>	<i>\$'000</i>
Total comprehensive income less depreciation/amortisation expenses previously funded through revenue appropriations <sup>1</sup>	<b>1,066</b>	2,746
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<b><u>(1,071)</u></b>	<u>(970)</u>
<b><i>Total comprehensive income – as per the Statement of Comprehensive Income</i></b>	<b><u>(5)</u></b>	<u>1,776</u>

<sup>1</sup> 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.

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