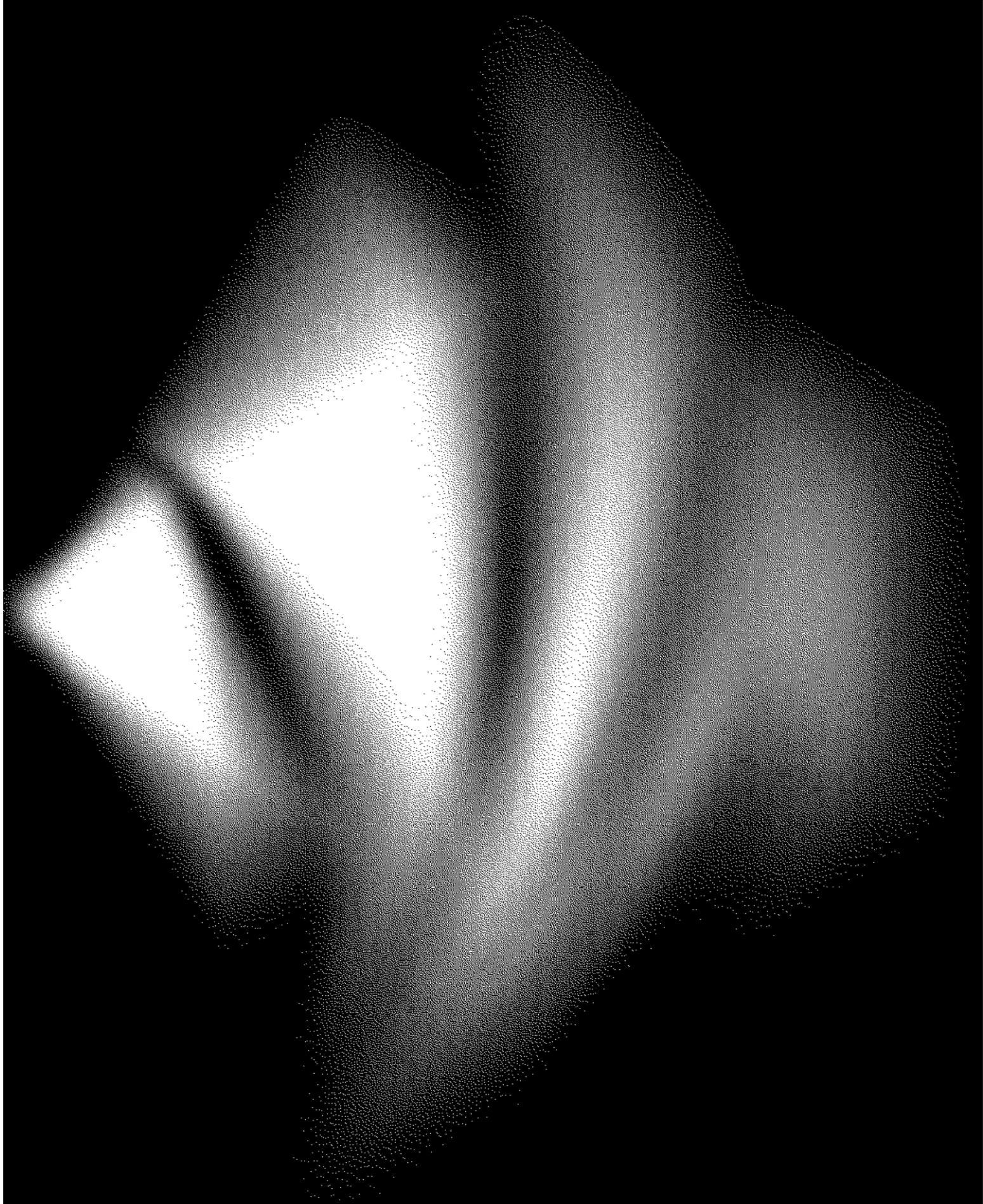




Annual Report 2001-02



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

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

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (03) 9653 2244.

Chairman and Commissioners



Gary Banks (Chairman), Judith Sloan and Tony Hinton



David Robertson and Helen Owens



Mike Woods and Neil Byron

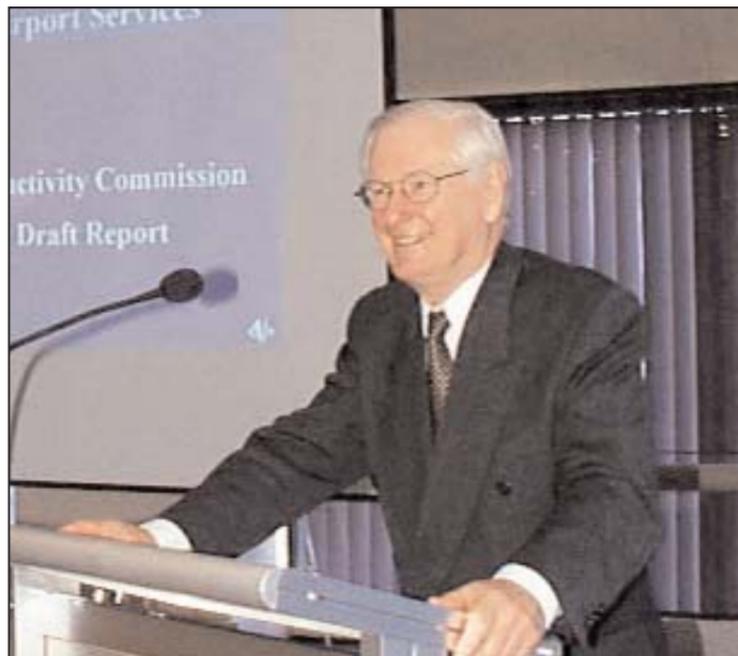
Richard Hal Snape (1936 – 2002)

Professor Richard Snape, Deputy Chairman of the Productivity Commission, passed away on 4 October 2002, aged 65. He will be remembered for his distinguished contribution both as an academic and public policy adviser.

A specialist in international trade and the economics of protection, Professor Snape had a long history of involvement in the work of the Commission and its predecessors, dating back to the days of the Tariff Board. He was appointed to the Industry Commission in 1995 as an

Associate Commissioner, principally as a research leader and mentor. He soon became actively involved in all aspects of the Commission's work and was appointed Commissioner in the newly created Productivity Commission in April 1998, and Deputy Chairman in February 1999.

Richard Snape headed major Commission inquiries, including those on the regulation of international air services, broadcasting, price regulation of airport services and Australia's first import safeguards action under the current WTO rules. He was also the supporting Commissioner for inquiries on assistance for the textiles, clothing and footwear industries and the regulation of telecommunications. He chaired the Commission's Research Committee and was an active contributor to the other work of the Commission, including this annual report.



Acknowledgment

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

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
CCNCO	Commonwealth Competitive Neutrality Complaints Office
COAG	Council of Australian Governments
ESD	Ecologically sustainable development
GTEs	Government trading enterprises
IC	Industry Commission
IMF	International Monetary Fund
LDCs	Least developed countries
NCC	National Competition Council
NCP	National competition policy
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
RIS	Regulation Impact Statement
SES	Senior Executive Service
US	United States of America
WTO	World Trade Organization

1 Extending the reach of markets

Governments have been extending the reach of markets into areas of the economy where governments themselves once made all the resource allocation decisions. Competition, choice, property rights and cost-reflective pricing are proving to be effective instruments in delivering better economic, social and environmental outcomes. However, governments face challenges in ensuring that market mechanisms contribute effectively to achieving community objectives and need to pay attention to design details if unintended or adverse outcomes are to be avoided.

Markets in perspective

Markets are human constructs that have proved to be powerful drivers of economic prosperity and growth. Efficient markets transmit information between buyers and sellers necessary to facilitate decisions about what is produced, how it is produced and to whom the goods and services are distributed. Markets work most effectively when buyers and sellers are informed, property rights are well defined, competition exists and there is no harm done to third parties.

Though often overlooked, the functioning of markets rests on a foundation of culture and custom. Trust, networks and norms condition the behaviour of individuals and can encourage them to align their interests with those of the wider community. The strength of such connections within a community influences the extent to which government needs to provide regulatory and institutional support for the functioning of markets.

Efficient markets are never completely unfettered from government involvement. Without effective property rights, for example, existing owners of resources have little incentive to manage them in ways which yield the highest pay-off to the community. Even then, some markets may not be able to achieve economically efficient outcomes.

Much of the Commission's inquiry and research program has been concerned with assessing the efficacy of regulatory and institutional arrangements for market activities. A major thrust of its work has been to address the consequences for the

community of government regulations that impede entry to markets. A core part of this work in the last few years has been the evaluation of ‘pro-competition’ regulatory interventions in the markets for monopoly infrastructure services. The insights from that work were discussed in last year’s annual report, in individual inquiry reports (on rail reform, liner shipping, prices surveillance, telecommunications competition regulation, the national access regime for essential infrastructure, airport services and harbour towage) and in speeches over the past year by the Commission’s chairman (Banks 2002b, c, d).

This year’s annual report provides an opportunity to review some of the main messages emerging from another important stream in the Commission’s recent work: how governments can successfully extend the use of markets to sectors of the Australian economy where such forces have rarely been used before.

Tapping the potential of market incentives

Governments in Australia and elsewhere have been making greater use of market mechanisms where resource decisions were once determined administratively. These encompass areas of the economy where markets were traditionally seen as likely to fail. This could be because markets would provide false signals about the value of resources to society — typically when significant ‘externalities’ are present or there are ‘public goods’ that ought to be freely consumed by everyone — or where the primacy of access and equity objectives over efficiency was thought to preclude any role for market-type instruments. These areas include health, education, community services, the provision of social safety nets, conservation of biodiversity and natural resource management — all of which have an important bearing on Australian productivity and living standards.

Governments and communities have come to realise that determining resource allocations administratively may not guarantee good outcomes. In part, this is because the complexity of many service delivery options and alternative ways of meeting demand can place overwhelming information burdens on centralised administrators. Another complication is that at least some ‘public’ services — be they in higher education, health, or government information services — have significant private benefits. Administered systems have their own incentive structures and develop their own, often opaque forms of ‘competition’ for access to resources. While markets have limits, so too do such centralised approaches to resource allocation.

Market mechanisms — such as competition, choice, property rights and prices — are therefore being reassessed for their potential to achieve efficiency and innovation in service delivery. Efficiency does not mean cutting costs without regard to impacts on services. Properly understood, efficiency means more and better services for the same level of resources. Moreover, markets are not an all or nothing choice. Market incentives can be integrated with administrative systems and often structured to serve overarching community objectives, such as equity in service provision. And market incentives need not be incompatible with the cooperative ethos which characterises many areas of service provision. After all, even fiercely competitive firms can find it in their common interest to cooperate with each other in ways that are socially desirable — joint venture partnerships, information sharing, and research and community education programs are examples.

Governments have consequently begun introducing market competition where previously it was suppressed, empowering choice by consumers and providers, establishing new property rights, and using prices to guide production and consumption decisions. Some government initiatives, such as the current review of higher education, have placed an appropriate role for market-oriented incentives as a core policy consideration (Nelson 2002).

Recent public inquiries and research studies by the Commission have reviewed areas where governments have been pushing the boundaries of markets: ‘creating’ markets for employment services for the long-term unemployed, the radiofrequency spectrum and the supply of ecosystem services such as those promoted by biodiversity conservation (box 1.1). Its inquiry on cost recovery by government agencies looked at the pricing principles that should guide access to information with varying levels of public and private benefit. Through its conference and workshop program, the Commission has also been exposing for informed debate proposals to increase the use of market incentives in the health care system.

This work has enabled an assessment of the use of markets in those areas and brought out some useful lessons about how to harness market incentives. But it has also revealed limitations in the use of markets and the need for care in their implementation.

Box 1.1 Using markets to improve outcomes

Job Network, established in 1998, is one of the first comprehensive attempts internationally to apply market principles to the provision of active labour market assistance for disadvantaged job seekers. Mechanisms used to supply publicly subsidised employment services in this 'managed' market include:

- contracting the provision of training, client management and other services to competing agencies in the for-profit and not-for-profit sectors;
- flexibility in the way services are delivered, with reward for good providers;
- some degree of choice of provider for job seekers; and
- a mix of tendered and administratively set prices for services.

A series of evolutionary design changes to Job Network were announced in May 2002.

Radiofrequency spectrum is a valuable natural resource necessary for radio and television broadcasting, mobile telephones, navigation, defence and emergency communication services, and even remote controls for garage doors and toys.

- Significant signal interference under an open access policy would seriously compromise spectrum usefulness. Worldwide, governments have intervened to control access to the airwaves by issuing administratively prescribed, equipment-specific permits.
- Australia was one of the first countries to recognise the potential for market-based property rights to increase the efficiency of spectrum use in the face of rapidly changing radio-technologies, competing cable technologies and consumer demands.
- A key reform was to create an auction technology-neutral spectrum rights for prized parts of the spectrum. Where 'smart' technology allows many users to occupy the same spectrum space with minimal interference, wider use of free and openly available class licences for low power, local transmissions has brought additional flexibility.

Ecosystems contribute important services such as air and water purification, drought and flood mitigation, and climate stabilisation. In terms of biodiversity conservation, many ecosystems are poorly represented in national parks and reserves, and many are not large enough on their own to sustain biodiversity and other ecosystem services.

- With more than 60 per cent of Australia's land area under private management, privately held ecosystems should be important contributors of ecosystem services.
- Private suppliers of ecosystem services, however, are not likely to be rewarded for all the benefits they would provide. Similarly, those who degrade the environment do not bear all of the costs they impose on others.
- As a result, markets for ecosystem services rarely exist and there are fewer such services than is best for society as a whole.
- In principle, governments can create markets by defining a new property right that is both linked to the desired ecosystem service and that can be exchanged for reward. Australian examples are the use of tradeable emission permits to limit saline discharges into rivers and a trial of competitive tendering as a cost-effective way of encouraging landholders to supply conservation of biodiversity on private land for profit.

Sources: PC (2002a), PC (2002c) and Murtough et al. (2002).

Benefits in extending the use of markets

Assessments across a diverse range of activities are confirming the value of greater use of market mechanisms in achieving various economic, social and environmental objectives. Even where markets have not been given full rein, better outcomes are evident than from administrative systems. Moreover, extending the use of markets and market instruments has freed governments to concentrate on those issues that they are best placed to handle.

Managing the airwaves

The superior potential of market mechanisms over administrative processes is being demonstrated in the management of the radiofrequency spectrum. Australia has had a long history of governments issuing licences that prescribe the equipment to be used, its location, power and frequency. However, digital technology and new transmission techniques have revolutionised the way spectrum can be used to carry information and to configure the networks needed to supply services such as mobile phones. New consumer demands, new options for spectrum use and new possibilities for substitution with cable and other technologies require rapid responses.

The Commission's recent review of spectrum management in Australia found that the outcomes from extending market practices into the sector have been mostly favourable (PC 2002c). Market-based spectrum licences allocated through auctions:

- have made it easier for licensees to use whatever technologies best suit their needs and to aggregate licences into the service networks that meet customer demands;
- have given the community better information on the value of spectrum rights and the costs of locking in technology-prescriptive rights; and
- will allow spectrum to move readily to higher valued uses, once secondary markets become better established.

Nevertheless, government retains substantial roles in spectrum management. These include defining spectrum property rights; investigating signal interference problems; reducing search costs by maintaining a public register of spectrum rights; providing for defence needs; ensuring reasonable access for public and community users; and meeting Australia's international obligations in spectrum management and coordination.

Serving the unemployed

In its evaluation of the Job Network, the Commission found that benefits had arisen from government becoming a purchaser, rather than a provider, of labour market services for the unemployed (PC 2002a). Chief among these benefits is a focus on obtaining outcomes for clients. This has been achieved by rewarding providers directly for good performance, creating incentives for providers to be innovative so as to remain competitive in the marketplace, and allowing some choice for job seekers between competing providers.

Although Job Network programs have had only a very modest net impact on aggregate employment to date, this was not unexpected and accords with outcomes from previous programs in Australia and overseas. However, total program costs are much less — funding has been halved relative to previous programs such as those forming part of Working Nation. In addition:

- surveys of job seeker satisfaction paint a positive picture;
- employers generally see the Job Network as an improvement over previous programs; and
- the reach of service providers has expanded — more than 250 localities have an employment service where none existed previously.

Conserving environmental assets

A key feature of markets is their ability to signal the preferences of buyers and sellers. Well functioning markets generate such information in cost-effective ways that administrative systems can seldom match. Significant amounts of information are summarised in prices, which enable participants to respond individually to opportunities for gain. This function can be put to use in the pursuit of both private and community interests — even in complex areas such as the conservation of biodiversity.

A market mechanism — competitive tendering — is being used in the Victorian Government's BushTender trial to create a market for the supply of conservation of native vegetation on private land. Sealed bids were sought from private landholders to undertake conservation activities on their properties — such as excluding stock from sensitive areas, controlling pests and weeds and retaining large trees and fallen timber. The trial was initially conducted in the Bendigo–Ballarat and Wangaratta–Wodonga areas and is being extended to areas in east and west Gippsland in late 2002. The use of competitive tendering has:

-
- provided better information to the community about biodiversity assets on private land — the presence of rare and endangered species increases the conservation value of a landholder’s bid and thereby creates incentives for landholders to disclose information previously likely to be concealed for fear of triggering restrictive land control measures;
 - resulted in the environmental agency revealing some of the weighting it attaches to various aspects of biodiversity conservation;
 - revealed information on the (previously hidden) costs of on-site conservation measures; and
 - enhanced the scope for achieving greater cost effectiveness in environmental expenditure (Murtough et al. 2002).

Market mechanisms are being used successfully to harness private conservation initiatives so as to complement public sector activities and the existing informal, voluntary and philanthropic conservation activities also undertaken privately.

Attention to detail is important

The design of appropriate incentive structures is pivotal when governments decide to introduce market mechanisms where none previously existed. New policy frameworks can result in unintended or adverse outcomes if insufficient attention is paid to their design features. As in most areas of regulation, the devil is in the detail. This applies to the way consumer choice is accorded, prices are established in these new markets, competition is introduced and property rights are defined.

Choices may need to be constrained

The benefits for consumers of being able to exercise choice are taken for granted in everyday markets. The lack of a guaranteed clientele ensures that providers target the quality, quantity and price of their goods and services according to consumer preferences. However, in ‘created’ markets, allowing unconstrained choice can bring complications.

In its evaluation of the Job Network, for example, the Commission found that existing arrangements tended to underplay the potential value of choice in empowering job seekers and providing incentives to service providers to improve performance. But options to enable more choice need to be designed carefully to avoid adverse incentive effects. For instance, allowing job seekers too much choice in changing providers or in moving to other programs such as Work for the Dole, could result in some clients seeking to avoid their mutual obligation and put at risk

providers' up-front investments in improving the employability of the long-term unemployed.

Payment incentives need watching

The design of incentive structures for service providers in created markets can also raise complex issues. For example, a high up-front service fee for Job Network providers, when job seekers come on to their books, reduces the financial incentive to direct additional resources to the very hard-to-place job seekers for whom a subsequent outcome payment is unlikely. On the other hand, high outcome-based fees can foster strategic responses by some providers — such as 'creating' unsustainable jobs. Payment structures have therefore had to be supplemented by contract monitoring and standardised comparisons of provider performance, to evaluate and adjust for unintended consequences.

Auction design can affect outcomes

The benefits of competition can be introduced into some sectors by replacing the administrative allocation of resources with auctions. However, some types of auction work better than others in ensuring that resources are allocated to their highest value uses.

In its inquiry on radiocommunications, for example, the Commission found the precise design of an auction is important (box 1.2). The Australian Communications Authority has been innovative in offering for sale relatively small parcels of spectrum in capital cities or regions, which bidders can choose to aggregate as they wish. In this way, firms with regional ambitions do not have to bid for national coverage, niche users can bid for just the amount of spectrum they require and mobile phone companies can bid for the vast tracts of spectrum (both spatially and in bandwidth) needed for their national networks. Australian spectrum licences have been relatively neutral with respect to technology and use and can be traded, thereby avoiding the inefficiencies associated with administered market segmentation.

Nevertheless, the Commission found that some design issues in spectrum auctions needed to be addressed. Although a clear advance on other ways of allocating spectrum, the current approach does not allow bidders to be sure they can win the complementary licences necessary to yield the highest overall value of spectrum use. The benefits of 'combinatorial' auctions, being trialed in the United States in 2003, should be reassessed by the Australian Communications Authority.

Box 1.2 Auction design issues for an efficient spectrum market

Auction design is particularly important in ensuring that market-based allocation secures the best use of spectrum in Australia because of the currently limited opportunities for subsequent trading. These spectrum rights are not perpetual and so far apply to only a small part of the spectrum. Stamp duties add to the costs of spectrum trades. Not surprisingly, the development of secondary markets has been limited to date.

Spectrum auction design needs to take account of the additional value that can accrue from owning adjacent licences, geographically or in bandwidth. Synergies in spectrum use arise from enabling the seamless roaming of mobile telecommunications, economies of scale (for example, from having fewer but more powerful base stations) and the productivity dividend from reducing the ‘empty’ space between adjacent bands which is needed to minimise unacceptable signal interference. Sequential bidding on individual lots of spectrum works against the realisation of spectrum synergies.

In a simultaneous ascending auction, bidders are free to bid on several lots at the same time and, while the auction is in progress, add new lots to the ones already held or switch between equivalent lots if one spectrum licence becomes too expensive. Design features of the simultaneous ascending auctions used for assigning spectrum have yielded additional benefits: they have generated more information about spectrum value, thereby promoting its efficient allocation and use; weakened incentives for overbidding through open, multi-round bidding; and discouraged collusive and predatory behaviour.

Nevertheless, while simultaneous ascending auctions permit bidders to achieve efficient aggregations of spectrum, they do not guarantee it. Combinatorial auctions would allow bidding on a package of spectrum lots on an all-or-nothing basis, thus allowing bidders the opportunity to acquire all the complementary licences they need to efficiently exploit synergies in spectrum use.

Source: PC (2002c).

Property rights have many dimensions

Commission research on the use of market-based mechanisms in the pursuit of environmental goals has demonstrated the importance of the design of property rights if such instruments are to be successful in generating desired outcomes.

In principle, governments can create a market for an ‘ecosystem service’ (such as salinity mitigation) by defining a new property right that is both linked to that service and can be sold. However, such a ‘right’ needs to be carefully defined. For example, 20 coal mines and two power stations have been allocated rights to discharge salty water into the Hunter River. These rights are conditional on river flow. At one extreme, no salty water can be discharged at ‘low’ flow times when

natural salt concentrations are highest. Conversely, there is no limit on saline discharge when the river is in flood, so long as protection limits for tributaries are observed. At other times, saline discharges are capped at the maximum set by the total (tradeable) salinity credits held by all participants in the scheme.

Property rights have varying attributes (box 1.3). The extent to which many of these approach the ‘ideal’ — such as for clarity of definition and enforceability of rights — will affect the efficiency of the particular market. However, some flexibility in property right design is necessary if markets are to evolve in response to improving technology and knowledge and changes in community preferences.

Box 1.3 Property right ‘ideals’ for market efficiency

- *Clear definition*: the nature and extent of the property right is unambiguous.
- *Verifiable*: use of the property right can be measured at reasonable cost.
- *Enforceable*: ownership of the property right, and the ability to exclude others from its use or enjoyment, can be enforced at reasonable cost.
- *Value can be established*: there are enough parties willing to purchase or sell the property right, there is no major imbalance in the information held by buyers and sellers and collusion is absent.
- *Transferable*: ownership of the property right can be transferred to another party at reasonable cost.
- *Manageable risk*: private interests are prepared to manage directly the risks associated with significant market, scientific or other uncertainties or can find ways of transferring all or part of the risk to other willing parties.
- *Minimal sovereign risk*: future government decisions are foreseeable or are unlikely to reduce significantly the value of the property right without compensation.

Introducing market incentives can be complex

Complex issues can arise when introducing market incentives into some other areas where resources typically have been allocated administratively by governments. In areas such as health, education, nursing homes and public housing, the aim is to ensure equitable access to services of acceptable standards as well as the efficient and effective provision of those services.

For example, a key consideration in assessing the scope for introducing ‘managed’ competition into Australia’s health sector — as some health experts have advocated — is whether the incentive structures for health service purchasers and providers can be designed to avoid them focusing on people with low health risks (so-called

cream-skimming) while people at high risk or with severe health problems fall between the cracks. (An analogous issue has arisen in the case of the Job Network.) Of course, current administratively determined health resourcing arrangements are already battling with their own set of perverse incentives — such as cost-shifting between the States and the Commonwealth and reward systems that have contributed to skill shortages, over-utilisation of already stretched resources, and over-provision of some services but rationing of others — all of which are working against efficient and equitable health outcomes.

Attention to the design and management of transitional arrangements are clear prerequisites for the successful introduction of market incentives. Given the uncertainties and community sensitivities, a series of incremental reforms may be more practicable than across-the-board change. Small-scale pilots can provide an opportunity for experimentation, appraisal and finetuning in advance of wider application. Australia's federal system lends itself to such experimentation, with jurisdictions learning from each other's experiences. Just as there are subtle variations in the workings of everyday markets, a 'one-size-fits-all' approach is unlikely to apply in the new areas.

Market mechanisms may need selective application

It may not always be either feasible or socially desirable to implement all the attributes of markets. For instance, the introduction of competition and choice may not require that prices be left entirely to market forces. Initially, some markets may be too 'thin'. Governments need to exercise care not just in how fast, but how far they move, especially where some impacts may be irreversible, as in the loss of biodiversity. The appropriateness of market approaches needs assessment case by case.

The delivery of active labour market programs, for example, has features that preclude the full operation of market forces and vitiate the role that competitive pricing and tendering normally play (box 1.4). Competitive tendering should enable the Government to choose suppliers that offer the best mix of price and quality. But in this market, price is not a reasonable guide to service quality as measured by the level of anticipated outcomes for the unemployed (PC 2002a). Moreover, the competitive tendering process has proved to be complex, disruptive to service continuity, time-consuming and expensive. Instead of persisting with the competitive price tendering element of a market approach to Job Network services, the Commission recommended that prices be set administratively and that licensing (based on accreditation criteria) be used to supplement normal market forces in the entry to and exit of providers from the Job Network.

In principle, the Job Network model could be extended to other labour market and social welfare programs delivered to individuals or community groups. Even if they cannot be applied comprehensively, payments based on outcomes, contestability among service providers and choice for clients could achieve better outcomes than systems managed administratively. However, case-by-case examination would be needed to weigh the advantages and disadvantages in particular applications. A prime consideration would be the extent to which a service was stand alone or part of a broader network of service provision.

Box 1.4 Challenges in adopting a market approach to employment services for disadvantaged job seekers

The Job Network does not operate like most normal markets because government must shape many aspects of the supply of and demand for job services. The government determines which services will be provided as well as which 'consumers' — unemployed people in receipt of welfare benefits — will 'purchase' these services. In this 'market':

- It is not appropriate or feasible for disadvantaged job seekers to exercise full sovereignty in their choice of labour market services. They are not free agents because they are required to abide by certain mutual obligations in order to access government benefits. Further, people experiencing long-term unemployment, or at risk of doing so, typically face disadvantages — such as poverty, low self esteem and poor motivation — that reduce their scope for fully informed choices. Some job seekers may face incentives to devote too few resources to looking for work or enhancing their employability because they receive welfare payments.
- Measurable outcomes do not incorporate all aspects of what an employment service should deliver. Contract specification is therefore incomplete, leaving open the possibility of strategic behaviour on the part of providers to focus their resources on job seekers who are most likely to achieve a payable outcome, but 'parking' (and further alienating) those whose probability of employment is low.
- Price competition cannot be given full reign. Job seekers are heterogeneous, with different skills, motivation and general readiness for work, many of which the existing diagnostic tool — the Job Seeker Classification Instrument — fails to pick up. Actual labour market outcomes depend on many factors, some random, beyond the control of service providers. Ex ante, the Government does not know exactly how much it is purchasing, what the overall quality of the service on offer is nor the trade-off between price and quality. To ameliorate this, the Government administratively set floor prices for the program which assists the long-term unemployed. Many providers have priced to this floor. Commission analysis showed that even those providers who won contracts with above-floor prices had much the same outcomes as those at floor prices, and some even had worse outcomes. In this market, price has provided little or no guide to quality.

Source: PC (2002a).

Charging for goods and services can provide signals to users about the costs of the resources involved in producing them, thereby ensuring efficient use. However, where the information products of government information agencies — such as the Bureau of Meteorology and the Australian Bureau of Statistics — have strong ‘public good’ characteristics or entail significant positive spillovers, cost recovery is inappropriate (PC 2001b). Such products should be funded through general taxation as part of an agency’s basic product set.

In the case of radiocommunications, some of the existing permits in the spectrum management regime have been difficult to re-design into exclusive rights to bandwidth and geographic space. Conversion of technically prescribed apparatus licences for transmissions between fixed points is complex, would lead to a reduction in the number of links that could be accommodated and would result in spectrum property rights of limited additional utility. Efficiency in spectrum use would be compromised. The Commission considered that some apparatus licences should be retained for the time being. In the longer term, it should be possible for a single spectrum licence to be granted over a broad geographic and frequency space, within which a private spectrum manager could coordinate multiple fixed links.

The costs involved in market creation can also constrain the reach of markets for biodiversity conservation and natural resource management. For example:

- Where environmental damage emanates from diffuse sources — such as in dryland salinity and terrestrial run-off from catchments — it may be impractical or very costly to monitor sources of pollution and establish a market for them. Likewise, a market instrument requiring property-by-property verification of biodiversity values would probably be too costly to implement on a large scale.
- Site-specific effects may cause difficulties in designing markets for dryland salinity, since the impacts of a given activity will vary according to factors such as soil type, slope, rainfall and location. The narrow definition of tradeable property rights to reflect site-specific effects could result in too few buyers and sellers for market efficiency.
- High scientific uncertainty associated with many aspects of biodiversity conservation can hinder effective market creation. For instance, tradeable offset schemes ostensibly allow one party to undertake activities that cause environmental harm, so long as this harm is offset against a credit earned by another party for increasing ecosystem services by at least an equivalent amount. However, the uniqueness of biodiversity, and often poorly understood biophysical relationships, make it costly to verify that like is replaced with like in offset schemes for biodiversity conservation. The experience with wetland offset arrangements in the United States is not particularly encouraging.

Governments can make better use of markets

Market mechanisms are not appropriate or feasible in all areas of the economy, and in others they take time to develop. However, the Commission's work shows that governments can do more to assist the development of new markets and to increase the effectiveness of existing market mechanisms. Given the complexities of introducing market dynamics into new areas, it is hardly surprising that things will not always be right first time round. Independent reviews provide an opportunity to check outcomes and assess the need for any finetuning of arrangements.

The Commission's evaluations have confirmed the value of the frameworks adopted in some non-traditional areas, but have also found ways in which governments can better harness market-based incentives by improving program design. To take two examples:

- The Commission considered that the effectiveness of the Job Network could be improved by enhancing a number of its market-like features. In particular, competition could be significantly increased, to the benefit of job seekers, by gradually removing the current quotas on the number of clients that can be serviced by providers. That way, the best Job Network providers would have ongoing incentives to promote themselves in ways which would increase their market share and better inform job seeker choice.
- Realisation of the dynamic benefits of market-based spectrum licences will be constrained eventually because the rights have a maximum duration of 15 years. Perpetual rights to these licences would increase their marketability. Competing users, new technologies and changing commercial opportunities would impose a market discipline on incumbents to use their spectrum rights efficiently, or to sell or lease them to others who can.

The Commission has also identified areas where markets and market mechanisms are being prevented from contributing as well as they might to the achievement of community objectives. Markets could play a much more important role, for example, in the conservation of biodiversity. But they are prevented from doing so by unnecessary constraints or uncertainties in Australia's land tenure arrangements, native wildlife and taxation frameworks and by the failure to apply competitive neutrality principles to public providers (PC 2001a, 2001c and 2002d).

- Pastoral lease arrangements that cover around 44 per cent of mainland Australia generally take a prescriptive approach to managing land use by, for example, specifying the type and level of stock that must be grazed. These arrangements constrain the emergence of non-pastoral land uses such as the conservation of native wildlife, the farming of livestock other than sheep or cattle, and eco-tourism.

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- Overly complex regulatory frameworks, ostensibly designed to conserve native wildlife, can mean that private interests have little incentive to undertake conservation. When they do, they operate under considerable management uncertainty and have increased operating costs. For example:
 - in most States, private sanctuaries have to obtain some wildlife licences not required of competing public providers and they face a broad range of regulatory controls on the keeping and trade of native wildlife; and
 - while public sector agencies and zoos have (limited) rights to undertake international trade in captive-bred native wildlife, commercial and private conservation bodies are excluded.
 - Taxpayers who manage their land solely for biodiversity conservation do not have access to a number of ‘up front’ tax deductions and concessions available to those who undertake conservation expenditures on land used for commercial purposes, including primary production.

A forthcoming Commission inquiry will provide an opportunity to review the impacts of native vegetation and biodiversity regulation on landholders and communities (Anderson 2002, Truss 2002b). The Commission is to assess the effects of State Government legislation and the Commonwealth’s Environment Protection and Biodiversity Conservation Act.

Further opportunities to examine appropriate roles for market mechanisms are likely to arise in the Commission’s research program. In the light of government priorities identified in the course of consultations on directions for its research, the Commission intends to give particular emphasis during 2002-03 to issues concerning:

- ageing of the Australian population — for example, connections with productivity, health, aged care and service delivery;
- environmental sustainability — for example, the appropriate design of policy to guide land and water management; and
- workforce transitions and dynamics — for example, education and training to meet the changing nature of work; the dynamics of job mobility, lifetime learning, productivity and workforce participation (PC 2002e).

The Commission already has a program of research in the health area. Following the Health Policy Roundtable, convened jointly by the Commission and the Melbourne Institute of Applied Economic and Social Research, the Commission organised a workshop of experts to discuss managed competition in health care (PC 2002f). A variety of similar proposals have been advanced to address perceived weaknesses in health care systems across a number of countries. The workshop examined practical implementation and transitional issues associated with the

‘Scotton model’ of managed competition for the funding and delivery of health care in Australia. Workshop participants were cautious about fully implementing this model, and suggested that a range of alternative, less ambitious approaches be investigated and assessed (box 1.5).

Box 1.5 Investigating options for health care reform

The general objective of the managed competition model proposed by Dr Richard Scotton is to use market incentives to increase economic efficiency, but within a framework which maintains equity and universal access in Australia’s health care system. Instead of governments both funding and providing services (such as hospitals), managed competition would separate the roles into: financing by government; competing public and private health service purchasers, bearing their own risks and organising health services on behalf of their clients; and competing providers of health care with whom purchasers would contract. The introduction of managed competition would therefore involve substantial and complex changes to current financing and delivery arrangements.

Many participants at the Commission’s workshop foresaw challenging implementation issues in such a ‘big-bang’ reform and considered that it would be preferable, at least in the short to medium term, to give priority to incremental reforms offering the prospect of clearer net gains and community support. Proposals for further investigation included:

- evaluating the merits of giving doctors, through the divisions of general practice, greater responsibility for purchasing medical services and pharmaceuticals for their patients;
- assessing the merits of giving regionally based, public non-competing purchasers the responsibility for purchasing a full range of health services for their residents;
- trialing managed competition by allowing people to opt-out of the current system to join a competing health care plan; and
- examining the scope to improve current re-insurance pooling arrangements for the elderly in the private health insurance sector by applying better approaches to risk management.

At a broader level, there would be value in undertaking a stocktake of existing and emerging problems within the health care sector and assessing the relative merits of different reform options in addressing these problems.

Source: PC 2002f.

In conclusion

Markets are powerful mechanisms for achieving efficiency and higher living standards. However, market instruments are unlikely to be suitable in some areas of the economy and may only become feasible in others over time, as technology and better information permit. That said, recent government initiatives illustrate how useful market-oriented approaches are proving to be in areas traditionally viewed as the preserve of government, either through allocating resources administratively or by direct service provision. Even imperfect market approaches can often deliver outcomes that are superior to the administrative systems they have replaced. Nevertheless, case-by-case assessment is needed.

As governments grapple with the imperative of improving the performance of Australia's education, health and community service systems, as well as meeting the challenges of salinity and biodiversity conservation, the Commission's work reveals a strong case for:

- removing unnecessary impediments to the development of markets;
- designing supportive institutional and regulatory arrangements necessary for market creation, where market approaches are suitable;
- experimenting with different forms of markets, adopting incremental reforms and small scale pilots, as appropriate; and
- periodically reviewing implementation and progress.

2 Commission activities

The Government set a varied and extensive program of work for the Commission in 2001-02. The inquiry program included reviews of competition regulation for much of Australia's economic infrastructure, Job Network services for the unemployed and industry assistance. The Commission's standing secretariat and research responsibilities were extended, at the request of the Council of Australian Governments, to include annual reporting on indicators of indigenous disadvantage. This year, the Office of Regulation Review continued to raise the standard of analysis required for regulatory advice going to government. The Commission's research program responded to identified needs for a better understanding of environmental, labour market, trade and productivity issues and in building the capacity to respond to the Government's policy priorities. The Commission continued to monitor reaction to and use of its work in government, parliaments and the community, in order to improve its performance and its contribution to policy making.

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

The Commission is expected to contribute to well-informed policy making and public understanding on matters related to Australia's productivity and living standards. Its work is based on independent and transparent analysis which takes a community-wide perspective rather than just considering 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 breadth and volume of the Commission's work are indicated by the reports it published in 2001-02 (box 2.1). The topics ranged from competition regulation for

Box 2.1 Commission publications in 2001-02

Public inquiries (draft reports and position papers)

Price regulation of airport services	Independent review of Job Network
Review of certain superannuation legislation	Review of Section 2D of the Trade Practices Act
Citrus growing and processing	Economic regulation of harbour towage
Radiocommunications	Review of automotive assistance

Public inquiries (final reports)

Review of the <i>Prices Surveillance Act 1983</i>	Review of the national access regime
Cost recovery by government agencies	Price regulation of airport services
Independent review of Job Network	Telecommunications competition regulation
Citrus growing and processing	Radiocommunications
Review of certain superannuation legislation	

Government-commissioned research studies

International pharmaceutical price differences	Impact of a foot and mouth disease outbreak in Australia
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Performance reporting

Report on Government Services 2002: education, health, justice, emergency management, community services, and housing	Trends in Australian infrastructure prices 1990-91 to 2000-01
Asset measurement in the costing of government services	International benchmarking of remote, rural and urban telecommunications services
Financial performance of government trading enterprises 1996-97 to 2000-01	Electricity prices and cost factors

CCNCO reports

ARRB Transport Research Limited	Meteorological services to aviation
Sydney and Camden Airports	Docimage Business Services
OzJobs	

Annual report suite of publications

Annual report 2000-01	Regulation and its review 2000-01
Trade & assistance review 2000-01	

Conference proceedings

Health Policy Roundtable

Submissions to other review bodies

Submission to DFAT on Australia's approach to forthcoming trade negotiations	Submission to the Environmental Management Systems Working Group
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Commission research papers

Constraints on private conservation of biodiversity	Harnessing private sector conservation of biodiversity
Structural adjustment — key policy issues	Offshore investment by Australian firms: survey evidence

(Continued next page)

Box 2.1 (continued)

Staff research papers

The role of technology in determining skilled employment: an economy-wide approach

Creating markets for biodiversity: a case study of Earth Sanctuaries Ltd

Self-employed contractors in Australia: incidence and characteristics

Information technology and Australia's productivity surge

Global gains from liberalising trade in telecommunications and financial services

Statistical analysis of the use and impact of government business programs

Greenhouse gas emissions and the productivity growth of electricity generators

The role of risk and cost-benefit analysis in quarantine decision making

Fixed-term employees in Australia: incidence and characteristics

Price effects of regulation: international air passenger transport, telecommunications and electricity supply

Australia's service sector: a study in diversity

Creating markets for ecosystem services

Staff working papers

Techniques for measuring efficiency in health services

Productivity growth in Australia: are we enjoying a miracle?

Living, labour and environmental standards and the WTO

much of Australia's economic infrastructure, industry assistance and structural adjustment, through to health policy, labour market assistance for unemployed people and impediments to the conservation of biodiversity. A full listing of publications is in appendix F.

Year in review

The Productivity Commission's goal of contributing to public policy making and community understanding of key issues influencing Australia's productivity and living standards is pursued through five major outputs. The principal developments in these activities during 2001-02 were as follows.

Public inquiries and other commissioned studies

The Commission had 12 public inquiries and four government-commissioned research studies underway at some time during the year, compared to a total of nine in 2000-01. The compressed reporting periods for some of them presented challenges for the Commission and participants.

Last year's annual report discussed important policy messages arising from the four related inquiries on competition regulation of infrastructure services — the national access regime, telecommunications, airport services and a review of the Prices

Surveillance Act. These inquiries were completed by early to mid year. Also completed in 2001-02 were inquiries on cost recovery arrangements for government agencies and a review of certain aspects of regulation of the superannuation industry — also described briefly in the 2000-01 annual report. A commissioned research study on international pharmaceutical price differences, commenced in September 2000, was released in July 2001.

The Commission commenced six new inquiries in 2001-02. These diverse inquiries covered:

- regulatory arrangements for managing the radiofrequency spectrum and an evaluation of the market-based reforms introduced in the 1990s;
- an independent review of the Job Network, a particular configuration of the purchaser-provider model that has been applied to the delivery of active labour market services since 1998;
- an examination of the current situation and outlook for the citrus growing and processing industry that arose out of concerns from some parts of the industry about import competition and pressure for a formal safeguards investigation;
- whether the exemptions to the restrictions on anti-competitive behaviour in Part IV of the Trade Practices Act should continue to apply to the licensing decisions and internal transactions of local government bodies;
- the impact of structural reforms on the provision harbour towage services, measures which could increase the level of competition, and whether there is a continuing need for any form of prices oversight of harbour towage; and
- post-2005 assistance options for the automotive manufacturing sector, including an evaluation of the outcomes of past reductions in automotive tariffs and of transitional assistance measures.

Terms of reference for three commissioned research studies were received in 2001-02. In late December 2001, the Parliamentary Secretary to the Treasurer asked the Commission to assess the potential economic, social and environmental impacts on Australia of a range of hypothetical outbreaks of foot and mouth disease. This study was an input to COAG's review of national frameworks for the prevention, preparedness for, and management of a major emergency outbreak, should it occur. The Commission reported in June 2002. Terms of reference for a research study on the resourcing of Australian universities in an international context were received in June 2002. The study was commissioned by the Government to provide factual information that will assist the current policy review of higher education in Australia. In addition, in June 2002 the Government requested a technical research study to help it assess the effects, both at home and abroad, of removing remaining tariffs on imports from the world's least developed countries.

Further information on public inquiries and the commissioned research studies undertaken by the Commission and, where available, government responses to reports, is provided in appendices B and C.

Performance reporting and other services to government bodies

The Productivity Commission's role as secretariat to the Steering Committee for the Review of Commonwealth/State Service Provision is in its ninth year. The *Report on Government Services 2002* is the most comprehensive source of comparative information on the performance of a range of services central to the wellbeing of Australians — spanning education, health, justice, community services and housing. These services collectively accounted for about \$64 billion of government expenditure in 2000-01 and almost 10 per cent of gross domestic product.

Data presented in the 2002 report represented a general improvement over prior years. Advances in reporting for existing performance indicators encompassed improved comparability, timeliness and quality of data and enhanced reporting on special needs groups. There was a concerted effort to improve the report's coverage of government services to indigenous Australians. For instance, the Aboriginal Rental Housing Program is the first targeted indigenous program that has been reported — in the past, all indigenous data were derived from mainstream program data. As well, the report contained new performance indicators for health (maternity services and general practitioners), court administration (Federal Magistrates' Services), aged care (compliance with service standards for residential care) and disability services (social participation).

The Review's underlying philosophy is one of continuous improvement and it has undertaken a number of research projects over the years to improve data comparability. In response to concerns about the effects of asset measurement techniques on reported unit costs, a research paper on *Asset Measurement in the Costing of Government Services* was released in September 2001. It examined the impact of differences in asset measurement techniques on total unit costs in the areas of public hospitals, police services, corrective services and public housing.

In May 2002 the Prime Minister informed the Commission's Chairman of COAG's agreement to the Steering Committee producing a regular report against key indicators of indigenous disadvantage that would advance reconciliation. The key task of this report to COAG will be to identify indicators that are of relevance to all governments and indigenous stakeholders and that can demonstrate the impact of program and policy interventions. This new report is not to reduce the emphasis on indigenous data that is already a feature of the Report on Government Services.

The Commission's standing responsibilities under its performance reporting activity also includes a program of research on the performance of Australia's economic infrastructure industries and the impact of related microeconomic reforms. Although the Commission has discretion as to the content and frequency of its reporting and international benchmarking studies, it is guided by the policy concerns of government.

This year, the Commission released its third report on the financial performance of government trading enterprises; a study of trends in infrastructure prices over the past decade; and international benchmarking studies of remote, rural and urban telecommunications services and of electricity prices and costs (box 2.2). A benchmarking study in the contentious area of water rights was also commenced and the Commission has benchmarking underway on container handling rates and charges on Australia's waterfront since the workplace reforms that followed the major dispute between Patrick Stevedores and the Maritime Union of Australia in 1998.

Further information on performance reporting activities in the year is provided in appendix B.

Regulation review activities

The Office of Regulation Review (ORR), which is a separate unit within the Productivity Commission, continued its role in helping to achieve better regulatory processes and outcomes. The ORR advises the Commonwealth Government, more than 60 Commonwealth departments, regulatory agencies and statutory authorities, and about 40 Ministerial Councils and national standard-setting bodies, on processes for the development of regulatory proposals and for the review of existing regulations.

Since March 1997 the Government has made it mandatory for departments, agencies, statutory authorities and boards to prepare a Regulation Impact Statement (RIS) for all regulation that affects business or restricts competition. A limited range of exceptions apply and these are outlined in the Government endorsed *Guide to Regulation* (ORR 1998).

The purpose of the RIS process is to ensure that proposed regulation will result in net benefits to the community — and to discard options that fail to meet this test. A RIS provides a consistent, systematic and transparent process for assessing different policy approaches to problems. It should ensure consideration of the social and environmental as well as economic impacts of any proposed regulation, include an assessment of alternative approaches and consider impacts on different groups and

the community as a whole. A RIS can thus assist government by ensuring that all relevant information is presented to the decision maker. In addition, after the decision is made and the RIS is tabled in Parliament or published elsewhere, it provides a transparent account of the factors behind that decision.

Box 2.2 Performance reporting on Australia's economic infrastructure

The Commission's research on the performance of Australia's economic infrastructure industries during the past year responded to increased requests for detailed analyses relevant to improving community awareness of the benefits and costs of micro-economic reform and the development of future policy in these sectors.

In May 2002 the Commission released its report, *Trends in Australian Infrastructure Prices*, which examined trends in pricing, service quality and financial performance for key infrastructure industries between 1990 and 2001. The findings were generally consistent with the expectations and objectives of government policy reforms over the last decade and a half, resulting in more cost-effective services, cost-reflective prices and lower burdens on taxpayers.

In June 2002 the Commission completed the latest of its annual reports on the financial performance of the government trading enterprises which dominate the provision of economic infrastructure services. Notwithstanding progress towards a commercial basis of operation, the report showed that many government businesses are earning low rates of return despite a decade or more of reform. The Commission concluded that an examination of key areas of governance would help illuminate the reasons for this. In addition to providing time series data, the report examined several significant issues that affect the financial performance and governance of these enterprises — in particular, the valuation of their assets, debt management and arrangements for funding their non-commercial activities.

The Commission's standing research responsibilities also include international benchmarking of Australia's economic infrastructure.

- In prior years, the Commission has undertaken international benchmarking studies of Australia's waterfront (1998), telecommunications services (two reports in 1999) and arrangements for setting drinking water standards (2000).
- The report, *International Benchmarking of Remote, Rural and Urban Telecommunications Services*, released in July 2001, found that rural and remote telecommunications users in Australia experience some disadvantages compared with urban users, but generally no more so than in other countries. This is despite the higher cost of providing services in more sparsely populated Australia.
- The Staff Research Paper, *Electricity Prices and Cost Factors* (August 2001) examined factors that affect the price and quality of services delivered by the electricity industry in Australia and several other countries. It identified key cost factors and their relative significance, providing guidance as to where more information and research is most needed.

The ORR seeks to promote the Commonwealth Government's objective of effective and efficient legislation by providing advice on, and by monitoring compliance with, the Government's RIS guidelines (box 2.3). It also examines and provides advice on RISs to Ministerial Councils and national standard-setting bodies. The ORR provided formal RIS training on regulatory best practice to 200 Commonwealth officials in 2001-02.

The ORR liaises with State and Territory government officials, Commonwealth and State parliamentary committees concerned with regulation, officials from other national governments — including New Zealand — and international organisations such as the OECD and APEC. Such dialogue results in greater consistency in regulation making processes in each jurisdiction, which in turn helps to generate better quality regulations and reduces unnecessary impediments to trade and commerce. Improvements in the quality of regulations in Australia and overseas generate higher productivity and incomes.

Box 2.3 Compliance with RIS guidelines in 2001-02

The Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its 'report card' for 2001-02 shows that:

- 145 regulatory proposals from 20 Commonwealth departments and agencies affected business or restricted competition and therefore required the preparation of a RIS;
- adequate RISs were prepared for the policy approval/decision-making stage for about 88 per cent of those proposals; and
- compliance was noticeably lower for those proposals assessed as having a significant impact — with only 70 per cent of RISs rated as adequate.

Compliance varied significantly both among and within portfolios: while nine departments and agencies fully complied with the Government's RIS requirements, 11 did not. The relatively short time frame in which RISs were prepared for some significant proposals suggests that the process was unlikely to have achieved its full potential of contributing to the development of the best policy response.

Overall, RIS compliance in 2001-02 was higher than in previous years.

Further compliance details, including performances for individual departments and agencies as well as for Ministerial Councils (which involve ministers from the Commonwealth, States, and Territories, and in many Councils, the New Zealand Government) and the national standard-setting bodies, are provided in PC (2002g).

Competitive neutrality complaints activities

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

The Commonwealth Competitive Neutrality Complaints Office 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 two written complaints in 2001-02, one which proceeded to formal investigation and report and the other was resolved informally. Reports were finalised on four of the five matters outstanding at the end of 2000-01, with one investigation terminated without report. The Office also provides informal advice and assists agencies in implementing the competitive neutrality requirements. During 2001-02 it provided advice around six times a week, on average, to agencies or in response to private sector queries.

Details of complaints and the action on them, and the advisory and research activities of the Commonwealth Competitive Neutrality Complaints Office, are reported in appendices B and D.

Supporting research activities and annual reporting

The Commission has a mandate to undertake research — on matters relating to industry development and productivity — to complement its other activities. It must also report annually on these matters, including 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, parliamentary debate and committee work, and wide ranging consultations with Commonwealth departments and agencies, peak employer and union bodies, community and environmental groups, and academics. The broad research themes which guided the 2001-02 program of supporting research were:

- the economic, social and environmental impacts of government policy and policy changes, including adjustment and regional dimensions;
- the implications for public policy of economic, social and environmental trends, including globalisation and demographic change; and
- impediments to improvements in the living standards of Australians.

Projects were categorised broadly as relating to one of eight topics: productivity and industry studies; international trade and investment; economic infrastructure; government services; labour markets and employment; social issues; environment; and general research/analytic framework studies.

In addition to the listing provided in box 2.1, information on the Commission's supporting research publications in 2001-02 is provided in appendix E. This also details the 76 presentations given by the Chairman, Commissioners and staff during the year to parliamentary committees, industry and community groups, and conferences. These presentations addressed a range of issues of wide community interest, including the impact of microeconomic reforms on productivity, the regulation of economic infrastructure and biodiversity issues. The Commission briefed 22 international delegations and visitors during 2001-02 (table E.2).

Transparent and consultative processes

A distinctive feature of the Commission is its open, consultative processes and the scope they provide for people to participate in and scrutinise its work. These processes are integral to its operation. They ensure that the Commission's research and policy advice is tested publicly and therefore is more robust. They also provide a public demonstration of the Commission's independence from the various arms of government and the many interest groups with which it comes in contact.

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 the Commission's operations.

The Commission's practice of extending consultative processes beyond its public inquiry work continued during the year. Following recent practice, the Commission held a series of external consultations with government agencies, industry, unions, community and environmental groups during May and June 2002 to obtain feedback on the Commission's previous research contributions and to discuss future directions for the Commission's research program. Discussions were also held with academics and other interested parties. Considerable support for Commission research was expressed in those external consultations. More than 180 specific research proposals were put forward, with a number of common themes. Together with contributions from Commissioners and staff, these consultations were again helpful in setting broad directions for the Commission's program of supporting research. The Commission publishes its research program annually and it updates the details on individual projects during the year (available on the Commission's website).

The Commission also participates in collaborative research projects with academic institutions. Partners in such research projects in 2001-02 were:

- the Melbourne Institute of Applied Economic and Social Research (Melbourne University) on two projects — one an analysis of factors affecting unemployment and the costs and benefits of alternative policies to reduce unemployment (ongoing); and the other on innovation, productivity and profitability in Australian enterprises (completed during 2001-02); and
- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) on microsimulation models to examine the socio-economic consequences of changes in the health system and in public health, including at the post code and local government area levels.

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 research consortium of which the Commission is part, comprising the National Bureau of Economic Research and several Asian research institutes, hosted the 13th East Asian Seminar on Economics at the Commission in June 2002. The seminar's theme was 'productivity' and attracted 25 participants from Hong Kong, Indonesia, Japan, Korea, the Philippines, Singapore, Taiwan, Thailand, USA, and Australia. Deputy Chairman, Professor Richard Snape, chaired one of the discussion sessions and Assistant Commissioner Dean Parham presented the latest research on Australia's productivity surge in the 1990s and its determinants.
- The Chairman, Commissioners and staff also participated in the major conference, *Towards Opportunity and Prosperity: 2002 Economic and Social Outlook Conference*, organised by the Melbourne Institute of Applied Economic and Social Research and *The Australian* newspaper in April 2002.
- In July 2001 Dr Philippa Dee, Assistant Commissioner of the Trade and Economic Studies Branch, was appointed to chair the Working Committee on Services of the international Global Trade Analysis Project, based at Purdue University in the United States.
- The Office of Regulation Review provided briefing and training on RIS processes to New Zealand officials, both in Canberra and Wellington during 2001-02. In July 2001 the ORR also organised the annual meeting of regulation review units, representing all States, the Australian Capital Territory and New Zealand.
- The CCNCO participated in the meeting of competitive neutrality policy and complaint agencies of the Commonwealth, State and Territory governments held in August 2001.

The Commission continues to involve outside policy advisers and researchers in its work. Each year the Commission hosts or co-sponsors a major conference, roundtable or workshop on a major topic of policy interest. Publication of the proceedings of this year's roundtable — which explored key policy issues facing Australia's health sector — aimed to enable wider dissemination and consideration of the insights that emerged and to guide future policy development and research in this important area (box 2.4).

Box 2.4 The Health Policy Roundtable

In March 2002 the Commission and the Melbourne Institute of Applied Economic and Social Research jointly convened a Health Policy Roundtable in Melbourne. It drew together 30 leading practitioners and analysts covering key health policy issues.

The topics included international developments in health policy, cost pressures in health care systems, access and service delivery, supplier-induced demand and occupational regulation.

The proceedings, published in June, include the papers prepared by the speakers, responses by discussants and summaries of the issues raised in general discussion (PC 2002b).

Based on international and Australian experience, some general observations from the roundtable were:

- countries face similar problems and sometimes adopt similar approaches to handling them (often not based on evidence);
- single payer systems may offer the greatest potential to control costs;
- in future, overriding cost pressures will be on the demand side;
- most countries still face problems in delivering health care efficiently;
- significant inequities in health care persist;
- evidence on supplier-induced demand is incomplete and inconclusive; and
- there is scope to consider reform to regulations affecting the entry process to markets for medical specialists and the current approach to medical workforce planning.

Workshops and roundtables also provide other valuable opportunities to utilise wider sources of expertise in the Commission's inquiry and research work. For example:

- As part of its inquiry on the Job Network, the Commission augmented its usual means of consultation with six workshops, held around Australia during November and December 2001, to gain first hand the views, opinions and ideas from job seekers about their experiences in the Job Network.

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- An economic modelling workshop was held as part of the inquiry on post-2005 assistance options for the automotive industry. Modellers, academics and representatives from the industry and government attended. The workshop provided an opportunity for discussion and comparison of the preliminary results of modelling contracted and undertaken by the Commission, as well as modelling work submitted by participants.
 - Similarly, a workshop was held to discuss the methodology, assumptions and preliminary results for the foot and mouth disease research project. Useful feedback was provided on the Commission's work and some specific modifications made in the light of comments received. More than 50 government and industry representatives attended the workshop.

The Commission has continued its program to attract senior academics as 'Visiting Researchers' on a regular basis. This program is intended to strengthen the Commission's expertise and research capacity. Professor Peter Forsyth of Monash University, Associate Professor Geoff Edwards of La Trobe University and Professor Jonathan Pincus of the University of Adelaide participated during 2001-02. Associate Professor Vivek Chaudhri of the Melbourne Business School joined the program in July 2002.

The Commission also works cooperatively with other government agencies on projects of joint interest. During 2001-02, the Commission has been working with the Australian Bureau of Statistics, the Department of Industry, Technology and Resources and the National Office for the Information Economy to investigate the links between the adoption of information and communication technologies and productivity performance at the firm level. This is part of an international project, coordinated by the OECD, to draw lessons from a range of countries' experiences.

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries and research. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby increasing opportunities for earlier and less costly public scrutiny of the views and analysis being put to it. Transcripts of public hearings, draft reports and position papers, inquiry circulars and final inquiry reports (when released by the Government) are all posted on the website for ease of access and scrutiny. The Commission's website also provides ready access to its other outputs — research publications, conference and workshop proceedings, competitive neutrality complaints reports, Commission submissions to other review bodies, benchmarking studies and reports arising from its secretariat work for the Review of Commonwealth/State Service Provision.

For inquiries current in 2001-02, the index pages to those Commission inquiries were accessed by external parties more than 112 000 times in the 12 months to 30 June 2002. The inquiries on the Job Network (16 200 times) and telecommunications competition regulation (19 900 times) accounted for nearly one-third of this total. Even after an inquiry or project is completed, community interest can remain high. For example, during the year, web pages for the Commission's 1999 inquiry on Australia's gambling industries were accessed more than 19 500 times. A total of 3.4 million visits to the Commission's website by external parties was recorded in 2001-02, a 40 per cent increase on the previous financial year.

Feedback on the Commission's work

The Commission actively monitors reaction to, and seeks feedback on, its work in order to improve its performance and contribution to policy making. The results of past surveys were reported in previous annual reports, including:

- A formal survey was undertaken in July 2000 to assess external perceptions about the quality of the Commission's work and the quality of its inquiry processes and the results were provided in the Commission's annual report for 1999-2000 (PC 2000).
- The ORR surveyed its 'clients' in 1999-2000 to assess how its role was perceived throughout government and to gauge the effectiveness of its work and processes (results reported in PC 2000). This exercise is to be repeated during 2002-03.
- Users of and contributors to the Report on Government Services were surveyed in June 2001 to obtain feedback on the success of the Report in meeting the objectives of the Review of Commonwealth/State Service Provision and the results were reported in the 2000-01 annual report.

In March 2002 the Chairman wrote to 26 'significant opinion formers', users and observers of the Commission's work seeking feedback on the Commission. The purpose was to augment its systematic surveys by obtaining more specific feedback on the Commission's effectiveness in policy debate and influencing outcomes, and suggestions for improvement. Responses were considered in depth as part of a two-day workshop for Commissioners and senior staff.

The Commission also undertook a survey of State and Territory Treasury officials in September 2002 for feedback on the quality and usefulness of the Commission's most recent report on the financial performance of government trading enterprises. Officials in several jurisdictions indicated that they use the report to monitor reforms and compare enterprise performance with other jurisdictions. The generally positive feedback and suggestions for improvement are reported in appendix B.

While the level of participation remains low, the Commission systematically offers recipients of its reports the opportunity to provide feedback. Survey cards are usually inserted into printed reports, the Commission's website has provision for sending comments via e-mail and, from June 2002, an on-line survey form has been made available. The Commission also provides an opportunity for people attending its public hearings to provide feedback on the organisation and conduct of hearings. The little feedback on hearings received in 2001-02 was generally positive.

Policy and wider impacts

The influence of the Commission's work is evident from a range of indicators, including policy decisions which reflect its analysis and recommendations, and the use of Commission work in policy debate by Federal and State parliamentarians, government agencies, other review bodies, business and community groups and the media.

Influence on government decisions

Government decisions on the Commission's inquiry reports reflect their usefulness to the Government, Parliament and the broader community. While commentators may make their own judgements, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments typically adopt a substantial majority of recommendations and generally endorse its findings (details are provided in appendix B and table B.7). Further, the nature and extent of references to Commission inquiry reports suggests that those reports materially contribute to the quality of policy debate in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

In responding to inquiry reports completed in 2001-02, the Government endorsed all or most of the Commission's principal recommendations for the price regulation of airport services, telecommunications competition regulation, the national access regime, certain superannuation legislation and cost recovery by government agencies. (Government responses on recent reports are reported in appendix C.)

At other times the Government may defer consideration of the Commission's advice until a later stage of policy development or simply reject the advice. For example:

- In May 2002 the Minister for Employment Services foreshadowed significant changes to Job Network arrangements, many of which were consistent with the analysis and conclusions in the Commission's draft report on the Job Network, released in March 2002. While welcoming the Commission's final report as 'a significant and authoritative examination of Job Network' and supporting the

overall thrust of the Commission's recommendations, the Government indicated it was not prepared to support some key proposals at present. However, the Government 'will be giving further consideration to these recommendations in the continued evolution of employment services policy' (Brough and Campbell 2002).

- In responding to the Commission's review of the Prices Surveillance Act, the Government accepted the key recommendation that the Act be repealed and a new part inserted into the Trade Practices Act. However, the Government decided to retain more extensive price control powers and processes than recommended by the Commission.

The impact of the Commission's work on policy debates and outcomes can extend over several years. Examples from the past year include the use of Industries Assistance Commission reports from the 1980s, as well as those of the Industry Commission — addressing such issues as fuel taxation, parallel importing and clothing homeworkers — and Productivity Commission reports on gambling (1999) and broadcasting (2000).

Contribution to parliamentary debate

Commission inquiry and research reports, from this and previous years, were used frequently by parliamentarians in debates and questions. During the 2001-02 sittings of the *Federal Parliament*:

- 28 Members and 21 Senators referred to 17 different Commission reports or inquiries, or to the Commission's role in policy processes;
- of the 78 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source three-quarters of the time. Some 97 per cent of mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to (3 per cent were critical); and
- Commission reports which featured most prominently were the inquiries into the Job Network, automotive assistance and telecommunications competition regulation.

There were more than 100 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2001-02. The Commission was mentioned in the proceedings of nine different committees, mostly in the proceedings of the Senate Standing Committee for the Environment, Communications, Information Technology and the Arts and the Senate Committee on Economics. The most commonly referred to inquiries or reports were telecommunications competition regulation and the review of the Job Network.

Twelve parliamentary committee reports in 2001-02 referred to 18 different Commission inquiries or research reports.

Examples of the use of a range of Commission reports by the Parliamentary Library are 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 2001-02 sittings of these eight parliaments:

- 43 members referred to seven different Commission publications, or to the Commission's role in policy processes;
- of the 50 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source 82 per cent of the time. This year, all mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to; and
- the Report on Government Services featured most prominently (accounting for 36 per cent of the mentions). The other report mentioned most often was the Commission's 1999 inquiry report on Australia's gambling industries.

Other indicators of policy impact

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

- the use made of Commission inquiry and research reports, for example, in submissions to the current review of the Trade Practices Act, in the work of other government agencies, and as reading material and texts in university courses;
- the Council of Australian Governments, as part of its Reconciliation Plan, assigning responsibility to the Steering Committee for the Review of Commonwealth/State Service Provision for reporting against key indicators of indigenous disadvantage; and
- the recommendation of a Victorian parliamentary committee that the role of the Victorian Office of Regulation Reform be strengthened and enhanced along the lines of the Office of Regulation Review.

Proposals made during 2001-02 by industry groups and State Government ministers that the Commission to be asked to undertake assessments of key policy issues — such as greenhouse gas abatement policy and public liability insurance — indicate confidence that the Commission's independent processes can contribute to well-informed decision making. Of course, the Commission's work also attracts some

criticism. For example, some senior members of the judiciary in New South Wales have been publicly critical of the reporting on court administration in the 'Blue Book' (box 2.5).

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it received in 2001-02 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 the States and Territories on the Commission's work, presentations and visits were made to the governments of New South Wales, Victoria and Western Australia. The Commission also responded to

Box 2.5 Performance measures for court administration

Criticism of the Review of Government Service Provision for its coverage of comparative performance data for court administrations throughout Australia has focused on three main concerns: courts do not deliver a 'service'; performance measurement could compromise judicial independence; and the lack of comparability in the data reported.

In responding to the well-publicised criticisms by senior members of the NSW judiciary, the Commission's Chairman (Banks 2002a) sought to correct a number of misunderstandings:

- As is well known, the Review does not report on court judgements but on how courts are administered. The value of courts to society lies not just in the quality of the judgements that are ultimately made but also in the processes that produce them. Justice greatly delayed, or achieved at excessive social cost, has a diminished value to society and, in this sense, courts *are* service providers. It is legitimate for the community to be informed about how well courts are going about their business.
- There is no question that judicial independence is of critical importance. The resources made available to courts need to account for what NSW Chief Justice Spigelman has described as the inherent 'inefficiency' of justice administration compared with some other systems of decision making. But that does not negate the value of comparisons of the efficiency of the system in different jurisdictions. It is difficult to see how requirements to report on such matters as court delays, finalisations or lodgements could involve a significant conflict with judicial independence. Such comparisons go to the heart of the effectiveness of courts.
- While perfect comparability in data is typically unattainable, that is not a reason for forgoing the reporting process. Data for the Review are collected on mutually agreed basis by appropriate representatives of all nine Australian governments. While some courts which are revealed to perform relatively poorly have sought to 'shoot the messenger', courts in other jurisdictions have used the data to argue for additional resources. Moreover, the Attorney-General for NSW pointed to data in the 2002 Report on Government Services as evidence that strategies to reduce court delays were starting to pay off.

requests from visiting official delegations from New Zealand, South Africa, the Philippines, Japan, Egypt, Bangladesh, Vietnam, the OECD, the IMF and APEC for briefings on the Commission's work, its role in policy advisory processes and discussion on policy issues (table E.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2001-02, 38 editorials in nine major newspapers drew on the findings or recommendations in 13 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission rated an average of 185 mentions a month in the electronic media and an average of 82 mentions a month in print media. The inquiries on the Job Network, citrus growing and processing, and automotive assistance received the most coverage.

Indicators of the influence of Commission activities during the year — its inquiry, performance reporting, regulation review, competitive neutrality work and supporting research — are discussed more fully in appendix B.

Associated reporting

Resourcing and management developments and issues in 2001-02 are reported in appendix A.

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

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

- *Regulation and its Review 2001-02* which assesses compliance with the Commonwealth Government's requirements for the making and review of regulation and reports on the activities of the Office of Regulation Review; and
- *Trade & Assistance Review 2001-02* which reports on trade policy and assistance developments and contains the Commission's latest estimates of Commonwealth and State assistance to Australian industry.

APPENDICES

A Resources and management

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

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. It was established under the *Productivity Commission Act 1998*. The Commission's first annual report (PC 1998, pp. 25–36) provides detailed information about its role.

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

The Commission's structure and senior staff at 30 June 2002 are shown in figure A.1.

Commissioners and staff

Commissioners

At 30 June 2002, in addition to the Chairman, there were seven other Commissioners, three of whom were part-time (table A1.1 of attachment A1).

The year saw the appointment of one new Commissioner (Mr Tony Hinton), the reappointment of one Commissioner (Dr Neil Byron) and the retirement of one Commissioner (Mr John Cosgrove).

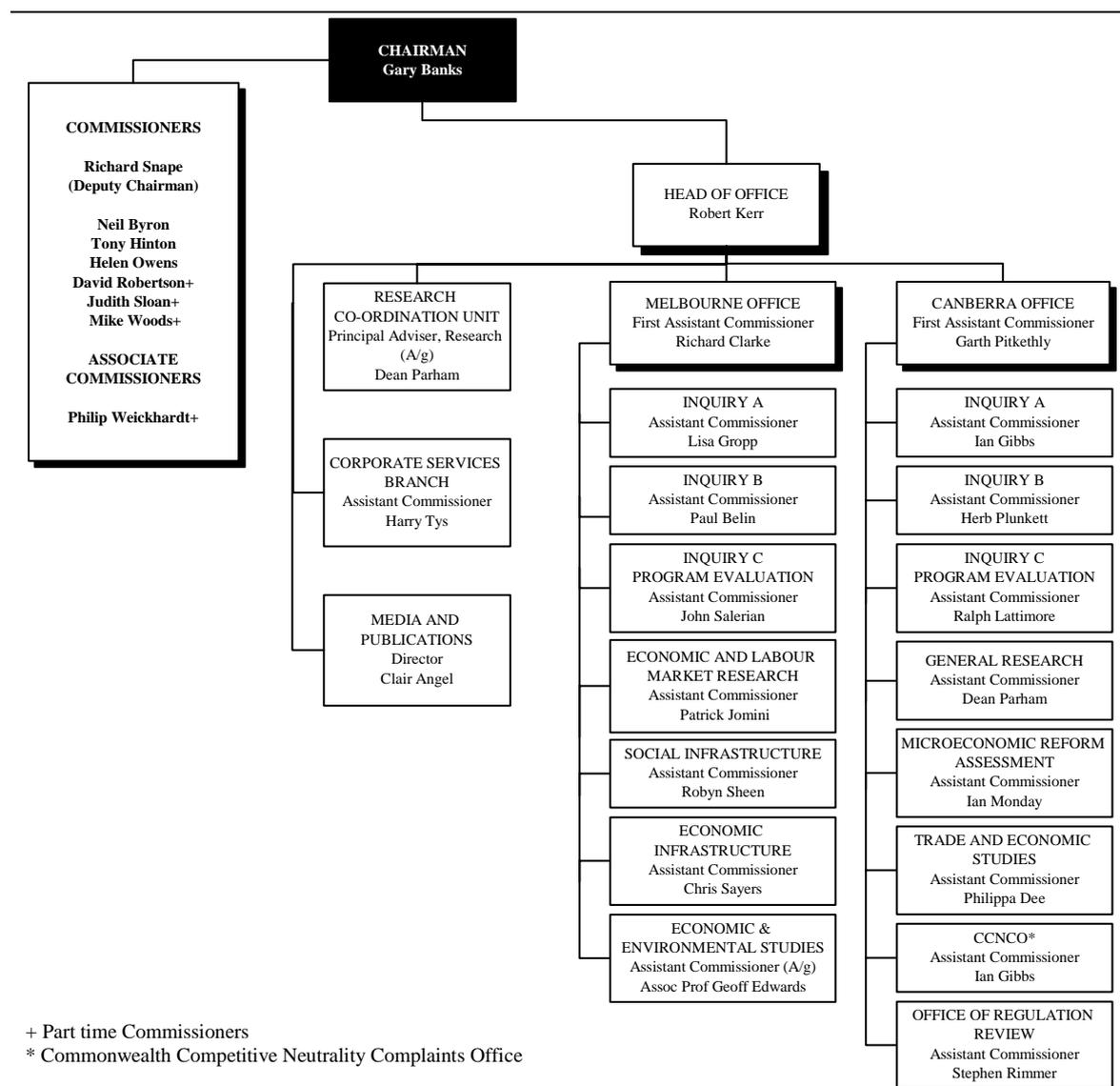
Mr Hinton was appointed as a Commissioner on 27 March 2002 for a five-year term. He has had diverse public policy experience in Australia and internationally at senior levels of government, including: extensive experience in financial and economic policy, debt management and foreign investment policy (six years as Executive Member of Australia's Foreign Investment Review Board) in the Australian Treasury; and most recently, Australia's Ambassador to the OECD in Paris.

Dr Byron was reappointed for five years from 17 April 2002. He will continue in the legislated role of Commissioner 'with skills and experience in matters relating to the principles of ecologically sustainable development and environmental conservation'.

Mr Cosgrove retired from the Commission on 7 May 2002, following seven years as a Commissioner. His most recent inquiries covered the citrus industry, superannuation legislation, access arrangements for essential infrastructure and the review of general tariffs. The Treasurer expressed his gratitude for Mr Cosgrove's contribution as a Commissioner and for his 38 years of 'distinguished public service'.

Biographical information on all Commissioners can be found on the Commission's website.

Figure A.1 **Productivity Commission structure and senior staff, 30 June 2002**



+ Part time Commissioners

* Commonwealth Competitive Neutrality Complaints Office

Associate Commissioners

As at 30 June 2002, there was one Associate Commissioner appointed for the duration of a particular inquiry on a part-time basis (table A1.2 of attachment A1).

Mr Philip Weickhardt was appointed a part-time Associate Commissioner for the inquiry into assistance arrangements for the automotive industry. As a senior executive in a major corporation he has had extensive background in corporate management in both the domestic and international environments. Mr Weickhardt also chaired the Business Council of Australia's Energy Reform Taskforce.

During the year, the terms expired of three Associate Commissioners appointed for the duration of a particular inquiry on a part-time basis (table A1.3 of attachment A1). The Associate Commissioners were Mr J D S MacLeod (Review of the Prices Surveillance Act), Dr B R Stewardson (Cost recovery by Commonwealth agencies) and Mr R Q Freney (Review of certain superannuation legislation). In addition, following the expiration of his term appointment as Commissioner, Mr J Cosgrove was appointed as an Associate Commissioner for the purposes of completing the citrus industry inquiry.

Staff

Staff numbers remained relatively constant at just over 190 at 30 June 2002 compared to 30 June 2001.

Staff turnover in 2001-02 — excluding departures from end-of-contract — was 9 per cent. This represents a continuation of a gradual decline in the turnover rate over recent years, driven mainly by lower turnover in the Melbourne office.

The Commission recruited 39 staff during the year, including seven through its graduate recruitment program.

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

Employee developments

Various developments affecting Commission employees during the year are outlined in this section.

Certified Agreement

The Commission is two years into its three-year certified agreement, which was certified on 25 October 2000. The agreement covers about 170 staff, and employee relations continue to be positive under the agreement's provisions. Salary ranges corresponding to the Commission's broadbanded classifications are shown in the certified agreement available on the Commission's website. Preparations will commence during the coming year for negotiation of a third-round agreement.

Australian Workplace Agreements

The Commission's 18 SES employees are all employed under Australian Workplace Agreements (AWAs). The agreements are based on a 'template' which largely reflects terms and conditions previously available to the SES in the APS generally. SES remuneration is set in the context of the public and private sector benchmarks contained in the APS SES Remuneration Survey conducted for the Department of Employment and Workplace Relations. Third-round agreements for most SES employees are due to be negotiated in 2003.

Seven non-SES employees have negotiated AWAs. These agreements rely for the most part on the certified agreement except where specifically overridden.

Commissioner remuneration

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

Performance management and pay

All employees participate in the Commission's performance management scheme, which 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 appraisal);
- identify training and development needs;

- provide a basis for determining annual salary advancement and performance bonuses (where applicable); and
- assist in identifying and managing underperformance.

Formal performance assessments occur at six-monthly intervals with the outcomes influencing salary advancement and, for Staff Level 3, Staff Level 4 and SES employees, performance bonuses. For Staff Level 3 and Staff Level 4 employees, bonuses of up to 10 per cent of salary are payable. For SES employees, higher bonuses are able to be achieved, reflecting the fact that a higher proportion of SES employees' remuneration is 'at risk'.

Performance bonuses paid for 2001-02 are summarised in table A.1.

Table A.1 Performance bonuses paid for 2001-02

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
	No.	\$	\$
Staff Level 3	42	92 051	2 191
Staff Level 4	51	156 796	2 996
SES	20	194 734	9 736
Principal Executive Officer	8	90 206	11 275
Total	121	533 787	

Training and development

The ongoing development of employees remains a high priority for the Commission. Encouragement and financial and other support continues to be provided to enable employees to participate in an appropriate mix of training and development from four streams:

- technical and operational skills and knowledge;
- professional skills and knowledge;
- personal management and communication skills and knowledge; and
- job-specific training and development.

Recorded expenditure on training and development in 2001-02 was 2.25 per cent of the annual salary budget, up from 1.5 per cent in the preceding year. This related to 214 employees who undertook a total of 730 days of training and development. A further 156 employee-days were devoted to attendance at regular internal professional development seminars. These activities do not include the extensive on-the-job training within the Commission.

In addition to the above, other training and development initiatives of a corporate nature were undertaken. These included:

- completion of time management training for all employees;
- commencement of team building training — an initiative from the current certified agreement;
- workplace behaviour and discrimination awareness training for all employees — flowing from the Commission’s Workplace Diversity Plan;
- management and leadership programs mainly for SES and Staff Level 4 employees. Objectives of the program were to:
 - develop leadership capabilities,
 - improve communication skills,
 - increase understanding of team dynamics,
 - improve motivation skills, and
 - assess varying leadership styles; and
- occupational health and safety training designed to raise general awareness of health and safety issues in the workplace.

Other development opportunities are provided by the Commission under its Studies Assistance Scheme for part-time students. Nineteen employees participated in the Studies Assistance Scheme during 2001-02. Direct financial assistance totalled around \$4000 and approximately 530 hours of paid leave was granted to participants.

Occupational health & safety (OH&S)

The OH&S Committee operates under the Commission’s OH&S Agreement and oversees the Commission’s health and safety program. Committee membership includes the health and safety representatives from both offices.

The Committee met three times during 2001-02. The Committee participated in training which focused on ‘Excellence in Safety Performance’ in preparation for reviewing the Commission’s annual program. The training was provided by an external OH&S professional.

Specific in-house initiatives during the year included:

- provision of a desk calendar to all employees promoting emergency evacuation and bomb threat procedures;
- bomb threat training for the Commission’s key OH&S appointees;

-
- continuation of the opportunity for employees to complete 'working hours questionnaires' at the conclusion of projects or on a six monthly basis for non project work. Feedback on results is provided to relevant senior managers;
 - an in-house seminar program which focused on raising employee awareness on health with topics such as men's health, women's health, Comcare's back care and manual handling program, and healthy eating for people on the go;
 - free flu vaccinations were offered to all employees (with a take-up of around 45 per cent); and
 - regular workplace hazard inspections.

An important part of the Commission's preventative approach to injury management was the continuing program of ergonomic assessments. This service is provided to all new employees, and is available to any employee who requires advice at any time but particularly after a workplace relocation. The service assists in the early identification of potential workplace injuries.

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

An indicator of the effectiveness of the Commission's OH&S programs is Comcare's workers compensation premium rate. Over the three years to 2001-02, the rates for the Commission and the whole-of-Government pool have remained relatively stable, with the Commission's being well under half those of the larger pool. For 2002-03, Comcare projects virtually no change in the Commission's rate, but a 13 per cent rise in the whole-of-Commonwealth pool.

Employee Assistance Program

The Commission offers its employees a program which provides independent, confidential and professional counselling, consultation and training assistance for work-related or personal problems. The service is provided by Occupational Services of Australia and is available to employees as well as their immediate families. Utilisation of the service in 2001-02 was around 8 per cent of total employees, up marginally from the preceding year.

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 certified agreement, equity and diversity plan and related policies to promote workplace diversity.

Implementation of the Commission's revised three-year equity and diversity plan — launched in June 2001 — began during the year. A particular initiative under the Plan was the provision of workplace behaviour training for all employees, which was provided by an external practitioner in this field.

The Commission continues to participate in, and contribute to, the APS-wide and Victorian workplace diversity network meetings in Canberra and Melbourne.

Commonwealth Disability Strategy

During 2000-01 the Government refined its Commonwealth Disability Strategy which is designed to assist Commonwealth agencies meet their obligations under the *Disability Discrimination Act 1992*. In brief, these obligations require agencies to include consideration of the needs of people with disabilities across the full range of their activities.

The refined Strategy requires agencies to report, through their annual reports, against a prescribed set of performance indicators. This is to allow the Department of Family and Community Services to undertake annual, APS-wide assessments for the Government on progress by agencies in implementing the Strategy.

The prescribed performance indicators most relevant to the Commission are those relating to the roles of 'policy adviser' and 'employer'. The table at attachment A2 lists the indicators, performance measures and outcomes.

A review of the Commission's disability action plan is nearing completion, with the new plan designed to ensure that the Commission fully complies with its obligations.

Finances

Appropriations through the Commonwealth Budget are the main source of Commission funds. These funds are directed at achieving the Government's desired outcome for the Commission, which it does through the provision of five specified outputs. The outcome and outputs are described in appendix B.

The financial and staffing resources devoted to achievement of the Commission's outputs are summarised in table A.2, and are expanded on in appendix B.

The Commission's audited financial statements for 2001-02 are included in appendix G. A deficit for the year of \$548 000 was incurred, which was consistent with the Commission's forward financial plans to use accumulated cash surpluses from previous years to help fund its operations.

Table A.2 Financial and staffing resources summary

	<i>Budget 2001-02</i>	<i>Actual 2001-02</i>	<i>Budget 2002-03^a</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government-commissioned projects	9 700	8 985	8 400
Output 1.2 – Performance reporting and other services to government bodies	3 100	3 354	3 300
Output 1.3 – Regulation review activities	2 100	2 247	2 100
Output 1.4 – Competitive neutrality complaints activities	300	297	300
Output 1.5 – Supporting research and activities and statutory annual reporting	7 829	8 738	9 409
Total Price of Outputs	23 029	23 621	23 509
Revenue from Government	22 605	22 605	23 014
Revenue from other sources	424	468	495
Total Resources	23 029	23 073	23 509
	<i>2001-02</i>	<i>2001-02</i>	<i>2002-03</i>
Commissioner/staff years (number)	195	201	195

^a The notional budget allocation between the output groups is based on historical information available in February 2002 for the purposes of preparing the Portfolio Budget Statements. Within the budget total, actual expenditure on different outputs responds to demands during the year, particularly to work commissioned under terms of reference by the Government.

Management and accountability

Governance developments

The Commission undertook a number of steps during the year to enhance its governance arrangements.

Structures

The Chairman is responsible for the overall management and governance of the Commission. He is assisted in this role by a Management Committee, which he chairs. The committee meets monthly and otherwise as required.

Commissioners also meet monthly, to discuss key issues related to the Commission's work program. Commission meetings, which are attended by some senior staff, are also used to raise relevant management matters.

In addition, periodic reports are provided to Commission meetings on each of the Commission's five outputs. Specific accountability structures in this regard are:

- Presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones;
- the Research Committee, chaired by the Deputy Chairman, meets on a monthly basis to discuss the research program and reports on a quarterly basis;
- the activities of the Steering Committee for the Review of Commonwealth/State Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis;
- the Chairman also oversees the work of the Office of Regulation Review, which provides quarterly reports on its activities; and
- one Commissioner is designated with responsibility for competitive neutrality issues, and reports to the Commission on a quarterly basis.

The Commission's internal Audit Committee also reports to meetings of the Commission on a six-monthly basis.

The effectiveness of structures to promote good governance is monitored on an ongoing basis. For example, in response to alternative sources of information being available, the standing Inquiry Committee was reconstituted during the year as an ad hoc committee.

Risk management

As foreshadowed in last year's annual report, work continued on formalising the Commission's risk management arrangements. A draft risk management plan was developed during the year covering all facets of the Commission's operations. The plan will be settled and implemented in the near future.

The fraud control plan developed and implemented last year remains appropriate to the Commission's operations in 2001-02 and complies with the Commonwealth's fraud control guidelines

Ethical standards

The Commission continues to promote a sound ethical environment, which is underpinned by the APS Values and Code of Conduct. During the year — and in conjunction with a review of induction processes — particular emphasis was placed on ensuring that new employees are made fully aware of the Commission's broad operating principles, including its ethical environment.

Potential conflict of interest issues are addressed by the ongoing requirement that Commissioners and senior staff provide the Chairman with timely advice about statements of private interests.

The Commission also formalised its internet and e-mail usage policy, which relies in large part on the ethical behaviour of its employees but provides for appropriate monitoring of usage as an assurance that these facilities are not put to inappropriate use.

Employee engagement

Employee feedback and participation in the formulation of workplace policies and improvements in the work environment is encouraged in a number of ways. These include staff representation on committees, broader consultation on sensitive issues and a variety of means of communicating internally. The Productivity Commission Consultative Committee — established as part of the Commission's certified agreement — meets at least quarterly. The Chairman and senior management hold regular meetings with all staff.

Commissioner/SES retreat

Various governance issues — as well as other key issues for the Commission and its future research directions — were discussed by Commissioners and Senior Executive Service staff at a one-and-a half-day retreat held at Beechworth in March 2002.

Accountability

Internal scrutiny and audit

A range of Commission policies and procedures were examined during the year for their effectiveness, efficiency, and public accountability. In respect to the latter, a new mobile phone policy was implemented, designed to ensure proper accountability for use of public funds and compliance with fringe benefits tax legislation.

During the year, the Commission sought to market test its agency banking arrangements, the outcome being a continuation of the service provided by the Reserve Bank of Australia.

The Commission's Audit Committee continued to play an effective review and advisory role. The Committee's efforts during the year related mainly to the financial statements, the implications for the Commission of Australian National Audit Office reports issued during the year, asset valuation, stocktake and write off procedures, the risk management plan, communications costs and computer virus protection matters.

External scrutiny

Other than an unqualified Independent Audit Report on the Commission's 2000-01 financial statements, there were no Auditor-General, parliamentary committee or Commonwealth Ombudsman reports specific to the operations of the Commission.

Service charters

Both the Commission and the Commonwealth Competitive Neutrality Complaints Office (which has separate functions and is located within the Commission) have service charters. A review of the Commission's charter was commenced during the year.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2001-02 in respect to either charter.

Review of performance measures

During the year the Commission undertook an assessment as to the usefulness of its performance reporting measures. The measures link to a set of performance indicators agreed with the Treasurer for annual reporting against each of its five outputs.

The review involved examining approaches adopted by other agencies as well as 'better practice' guides published by the ANAO and Joint Committee of Public Accounts and Audit. The Commission's experience, and that of others, is that devising meaningful indicators for policy advising/research activities is particularly challenging.

Nevertheless, the Commission's review identified a number of improvements which it will implement over the next year or two, having regard to the lead times involved in sourcing the necessary information. A start has been made in this annual report as indicated in appendix B.

Other

Consultancies

The Commission continued to utilise the services of a range of consultants 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. Although they are mostly let by direct approach to the prospective consultant, the agreed fees are in the context of the Commission's extensive experience in this market.

A summary of consultancies let in 2001-02 is shown in table A.3. Further details are provided in attachment A3.

Table A.3 Summary of consultancies let in 2001-02

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	6	117 295
Performance reporting	2	89 150
Supporting research and activities and annual reporting	18	111 200
Corporate management and services	1	12 650
Total	27	330 295

Special payments

The Commission made a number of special payments during 2001-02. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium memberships: \$34 813 for membership to the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multicountry trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input to the future direction of model and database development. The Commission also subscribed \$3905 for membership of the Committee for Economic Development of Australia (CEDA), \$770 for membership of the National

Institute of Labour Studies and \$7700 for two years membership of the Melbourne Institute Business Economics Forum (University of Melbourne).

Research partnerships: \$22 000 to the University of Canberra (NATSEM) for a partnership project on health policy and socioeconomic status and \$5500 to the Australian National University for research into the determinants of Australia's productivity performance.

Conference sponsorships: \$1100 to the University of Western Australia for part sponsorship of the 2001 PhD Conference in Economics and Business; \$5500 for the 46th Annual Conference of the Australian Agricultural and Resource Economics Society; \$27 500 to the University of Melbourne for the Towards Opportunity and Prosperity Conference; and \$5000 to the Economic Society of Australia for the 31st Australian Conference of Economists.

Awards: \$500 to the top 2001 student, Master of Economics, at the Australian National University (Robert Jones Prize).

Website developments

The Commission's website has continued to grow in importance as one of the primary means of disseminating its work to the public. Total website hits for this financial year numbered 3.4 million, a 40 per cent increase on the previous financial year.

Several enhancements to the website — which were foreshadowed in the 2001 Online Action Plan — have now been completed. They include: the availability of online feedback forms for publications and online registration of interest forms to participate in the Commission's public inquiry process, both now submittable via the website; the ability for website users to register to receive e-mail alerts from the Commission's Media and Publications Section when a publication in their specified subject area of interest is released; and the implementation of a new site search facility which allows more efficient retrieval of information from the site than was possible using the Commonwealth Government's search engine. The Commission's Online Action Plan is reviewed and updated annually to ensure progress in developing the site to meet the needs of users.

Another achievement this financial year has been the completion of a project to make available the full text of all 61 Industry Commission inquiry reports on the site.

Security

During the year the Commission undertook a protective security risk review to assess current security practices and its compliance with the requirements of the Commonwealth Protective Security Manual (PSA) 2000. Following this review, conducted on the Commission's behalf by Australian Protective Services, a Commission specific Agency Security Plan was developed. Recommendations from the Plan are being addressed progressively.

Purchasing

The Commission is cognisant of, and applies appropriately, the Commonwealth Procurement Guidelines.

The Commission's purchases of goods and services were consistent with the value-for-money objectives of the procurement guidelines, and were predominantly from small to medium sized Australia and New Zealand suppliers.

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 is a new requirement and is part of the Government's program to improve progress in implementing ESD.

By way of background, the Commission operates under statutory guidelines, one of which is '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)). Further, in May 1999 the Commission conducted an inquiry and reported on the implementation of ecologically sustainable development by Commonwealth departments and agencies (PC 1999a). The Commission thus analyses and reports on the implementation of sustainable development by other agencies and industries, as well as ensuring that its own activities are ESD compatible.

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, the ESD principles are integral to the Commission's analytical frameworks and comprise an important component of policy development and research activities. The weighting of the ESD principles varies from project to project depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen were provided in last year's annual report.

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

The third to fifth reporting requirements relate to the impact of the Commission's internal operations on the environment. The Commission is a relatively small, largely office-based, organisation in rented accommodation, and the actions able to be taken are somewhat limited. However, the Commission has policies (which are periodically reviewed) in respect of such matters as the promotion of occupational health and safety and workplace diversity, and reducing the impact on the environment through toner cartridge and paper waste recycling and minimising energy consumption. In order to manage its impacts on the environment in a systematic and ongoing way, the Commission has begun the development of an Environmental Management System which it will implement by December 2002.

Freedom of Information

No requests were received by the Commission for access to information under the *Freedom of Information Act 1982* in 2001-02.

A statement encompassing formal reporting requirements is provided in attachment A4.

Advertising and market research

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

A total of \$87 910 was paid for advertising (including recruitment) in 2001-02 to Starcom Worldwide (Aust) Pty Ltd.

Publications and submissions

Appendix F lists all publications and submissions to other review bodies completed in 2001-02.

Annual reporting requirements and aids to access

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

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

The annual report has also been prepared in accordance with parliamentary requirements for departmental annual reports issued by the Department of Prime Minister and Cabinet. A compliance index is provided in attachment A5.

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>.

The internet address for this annual report is:

<http://www.pc.gov.au/research/annrpt/annualreport0002/index.html>.

Inquiries about any Commission publication can be made to:

Director

Media and Publications Section

Productivity Commission

PO Box 80

BELCONNEN ACT 2616

Telephone: (02) 6240 3239

Facsimile: (02) 6240 3300

Attachment A1

Commissioner and staffing statistics

Table A1.1 **Chairman and Commissioners, 30 June 2002**

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 1998	19 May 2003
Prof R H Snape (M) (Deputy Chairman)	17 Apr 1998	16 Apr 2003
Dr R N Byron (M)	17 Apr 1998	16 April 2007
Mr A M Hinton (C)	27 Mar 2002	26 Mar 2007
Mrs H J Owens (M)	17 Apr 1998	16 Apr 2006
Dr D H Robertson (M) (p/t)	13 Dec 2000	12 Dec 2003
Prof J Sloan (M) (p/t)	17 Apr 1998	16 Apr 2006
Mr M C Woods (C) (p/t)	17 Apr 1998	16 Apr 2006

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

Table A1.2 **Associate Commissioners appointed to inquiries, 2001-02**

<i>Inquiry</i>	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr P L Weickhardt Review of automotive assistance	20 Mar 2002	30 Sept 2002

Table A1.3 **Associate Commissioners completing appointments during 2001-02**

<i>Inquiry</i>	<i>Period of appointment^a</i>	
	<i>From</i>	<i>To</i>
Mr J D S MacLeod Review of the Prices Surveillance Act	14 Mar 2001	6 Aug 2001
Dr B R Stewardson Cost recovery by Commonwealth agencies	1 Sept 2000	31 Oct 2001
Mr R Q Freney Review of certain superannuation legislation	14 Mar 2001	28 Feb 2002
Mr J H Cosgrove Citrus growing and processing	17 Apr 2002	7 May 2002

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

Table A1.4 Staff^a by location and gender, 30 June 2002

Level	Melbourne			Canberra			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
SES Band 3	0	1	1	0	0	0	0	1	1
SES Band 2	0	1	1	0	2	2	0	3	3
SES Band 1	2	6	8	1	5	6	3	11	14
Staff Level 4	5	19	24	7	17	24	12	36	48
Staff Level 3	10	13	23	5	10	15	15	23	38
Staff Level 2	14	17	31	5	13	18	19	30	49
Staff Level 1	21	4	25	9	4	13	30	8	38
Total	52	61	113	27	51	78	79	112	191
Corresponding totals at 30 June 2001	55	55	110	29	53	82	84	108	192

^a Excludes 18 inoperative staff at 30 June 2002 and 16 at 30 June 2001.

Table A1.5 Staff^a by employment status and gender, 30 June 2002

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	0	0	0	3 ^b	0	3	3 ^b	0	3
SES Band 1	3 ^b	0	3	11 ^b	0	11	14 ^c	0	14
Staff Level 4	10	2	12	35 ^c	1 ^b	36	45 ^c	3 ^b	48
Staff Level 3	14	1	15	22 ^b	1	23	36 ^b	2	38
Staff Level 2	17	2	19	29	1	30	46	3	49
Staff Level 1	24 ^b	6	30	8	0	8	32 ^b	6	38
Total	68	11	79	109	3	112	177	14	191
Corresponding totals at 30 June 2001	78	6	84	105	3	108	183	9	192

^a Excludes 18 inoperative staff at 30 June 2002 and 16 at 30 June 2001. ^b Includes 1 non-ongoing employee.

^c Includes 2 non-ongoing employees.

F/t denotes full-time and P/t denotes part-time.

Table A1.6 Staff by level and reason for separation, 2001-02

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
SES	0	0	1	0	0	0	1
Staff Level 4	0	0	2	1	0	3	6
Staff Level 3	0	1	4	0	0	0	5
Staff Level 2	2	1	5	0	0	0	8
Staff Level 1	0	0	2	0	0	16	18
Total	2	2	14	1	0	19	38
Corresponding totals at 30 June 2001	2	1	21	0	2	17	43

^a Voluntary Redundancy Package.

Attachment A2

Commonwealth Disability Strategy (CDS): outcomes against mandatory performance indicators

Performance requirements of the 'policy adviser' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Policy proposals assess impact on the lives of people with disabilities prior to decision.	Percentage of policy proposals that document that the impact of the proposal was considered prior to the decision making stage.	<p>Currently only documented where disabilities are identified as an issue.</p> <p>New Disability Action Plan designed to promote heightened awareness amongst employees of CDS principles.</p> <p>Aim to record consideration of CDS principles for all inquiries, either in the public document or internal records.</p>
People with disabilities are included in consultations about new policy proposals.	Percentage of policy proposals that are developed in consultation with people with disabilities.	<p>Commission inquiries are open to all groups. Where disabilities are identified as an issue specific consultations are undertaken (processes allow for identification by the Commission as well as self identification).</p> <p>Access to inquiries is facilitated.</p>
Public announcements of policy initiatives are available in accessible formats for people with disabilities in a timely manner.	<p>Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats.</p> <p>Time taken in providing announcements in accessible formats.</p>	<p>100 per cent available on website redesigned in line with Government Online requirements for accessibility.</p> <p>No requests for audio or Braille formats received.</p> <p>Website information available immediately.</p> <p>Other formats not requested, currently researching further methods of providing accessible formats should they be required.</p>

Performance requirements of the 'employer' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Recruitment information for potential job applicants is available in accessible formats on request.	Percentage of recruitment information requested and provided in: accessible electronic formats; and accessible formats other than electronic. Average time taken to provide accessible information in: electronic format; and formats other than electronic.	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press. 100 per cent available. None requested. Immediate. Dependant on request, none received to date. Currently researching method of providing information should it be requested.
Agency recruiters and managers apply the principle of 'reasonable adjustment'.	Percentage of recruiters and managers provided with information on 'reasonable adjustment'.	Where relevant, selection panels are provided with this information. Managers receive information as required. A register is to be created to record all requests for information.
Training and development programs consider the needs of employees with disabilities.	Percentage of training and development programs that consider the needs of employees with disabilities.	Training nomination forms include a section requesting information on the special needs of employees. The training administrator monitors and will arrange appropriate support if required. To date no assistance has been requested.
Training and development programs include information on disability issues as they relate to the content of the program.	Percentage of training and development programs that include information on disability issues as they relate to the program.	Induction program includes appropriate information regarding disability issues. Other programs include disability issues where relevant. No issues have arisen during 2001-02.
Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by employees.	Established complaints/ grievance mechanisms, including access to external mechanisms, in operation.	'Review of Action' procedures are available to all employees. No review procedures requested in 2001-02.

Attachment A3

Consultancies let in 2001-02

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Government-commissioned projects			
Prof Peter Darling Pondarosa Communications Pty Ltd	Provide technical advice and comments to the radio- communications inquiry team on the draft report	15 000	Public tender
Melbourne Institute of Applied Economic and Social Research	Automotive labour market scoping study	11 275	Directly approached one provider
Econtech Pty Ltd	Post 2005 assistance arrangements for automotive manufacturing sector – modelling Australian assistance arrangements	58 300	Public tender
Centre for International Economics	Post 2005 assistance arrangements for automotive manufacturing sector – modelling Australian assistance arrangements	27 720	Public tender
Dr Roger Mauldon	Prepare for and chair the modelling workshop on the impact of foot and mouth disease outbreak in Australia	1 000	Directly approached one provider
Prof R Duncan Cardwellia Pty Ltd	Review the modelling work for the study of the impact of possible foot and mouth disease outbreaks	4 000	Directly approached one provider
<i>Government-commissioned projects — total</i>		117 295	
Performance reporting			
Database Consultants Australia	Social infrastructure data assignment	31 680	Public tender
Synthesis Pty Ltd	Development of integrated data management system and supporting sub-systems	57 470	Public tender
<i>Performance reporting — total</i>		89 150	

(continued next page)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Supporting research and activities and annual reporting			
TMV Consultants	FTAP 11 database development – first phase	19 600	Directly approached one provider as the expert for the FTAP model
Monash University Centre of Policy Studies	Applied economic research to prepare a database for the Monash model	19 000	Directly approached one provider as the acknowledged expert on the Monash model
Monash University Centre of Policy Studies	Applied economic research leading to a revised database for the MMRF-Green model	3 850	Directly approached one provider
Robert Douglas	Provision of report on potential effects of selected taxation provisions on the environment	7 000	Directly approached one provider
Prof John Freebairn	Referee for potential effects of selected taxation provisions on the environment	1 500	Directly approached one provider
Centre for Australian Financial Institutions, University of Southern Queensland	Productivity in Australian banking	5 000	Directly approached one provider
Dr Tim Fry Melbourne Institute of Applied Economic and Social Research	Expert advice on the demand for labour hire workers in Australia	15 400	Approached three experts in labour economics and micro-econometrics
David Hey-Cunningham and Associates	Training course on the analysis of financial statements	6 600	Directly approached one provider
Prof Peter Dixon Monash University	Expert advice on the regional effects of changes in the electricity industry	15 000	Directly approached one provider as the acknowledged expert on the Monash model
Dr Tim Coelli University of New England	Referee draft staff research paper on greenhouse gas emissions and the productivity growth of electricity generators	1 100	Directly approached one provider

(continued next page)

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Dr Flavio Menezes Australian National University	Referee staff research paper on the role of auctions in allocating public resources	1 500	Directly approached one provider
Dr Tim Fry Melbourne Institute of Applied Economic and Social Research	Referee for staff research paper on employees	600	Directly approached one provider
Associate Professor Hugh Outhred University of NSW	Referee international benchmarking of electricity prices	2 200	Directly approached one provider
Emeritus Professor Anthony Chisholm	Referee for constraints on private conservation of biodiversity	4 000	Directly approached one provider
Prof Jeff Bennett	Referee for harnessing private sector conservation of biodiversity	1 800	Directly approached one provider
Dr P G Hone Deakin University	Referee for pastoral leases and non-pastoral land use	2 250	Directly approached one provider
National Centre for Social and Economic Modelling (NATSEM)	Supplier induced demand for medical services project	4 200	Directly approached one provider
Dr John Buchanan University of Sydney	Referee staff research paper on contractors	600	Directly approached one provider
<i>Supporting research and activities and annual reporting — total</i>		111 200	
Corporate management and services			
Australian Protective Services	Conduct protective security risk review and develop agency security plan	12 650	Directly approached one provider
<i>Corporate management and services — total</i>		12 650	
Total consultancies		330 295	

Attachment A4

Freedom of Information Statement

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

Organisation, role and functions

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

Arrangements for outside participation

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

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

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

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

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

regularly to discuss issues relevant to the interpretation and implementation of competitive neutrality policy.

Categories of documents

Principal categories include:

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

Facilities for access

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

reports are distributed, free of charge, to inquiry participants and are also available from the Commission's website.

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

- the Commission's Annual Report series;
- final Inquiry reports, Research reports and Performance Monitoring reports; and
- reports by the Steering Committee for the Review of Commonwealth/State Service Provision.

Reports on competitive neutrality matters and submissions made by the Commission to other inquiries are available from the Commission's website, or free of charge, from the Commission.

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

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

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

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

Attachment A5

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B Program performance

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

The Commission's five outputs comprise public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, regulation review and competitive neutrality complaints activities, as well as supporting research and statutory annual reporting. This appendix reports on some general considerations in assessing the Commission's performance, the results of external feedback surveys, and the Commission's outputs and related performance in 2001-02.

Assessment of the Commission's performance

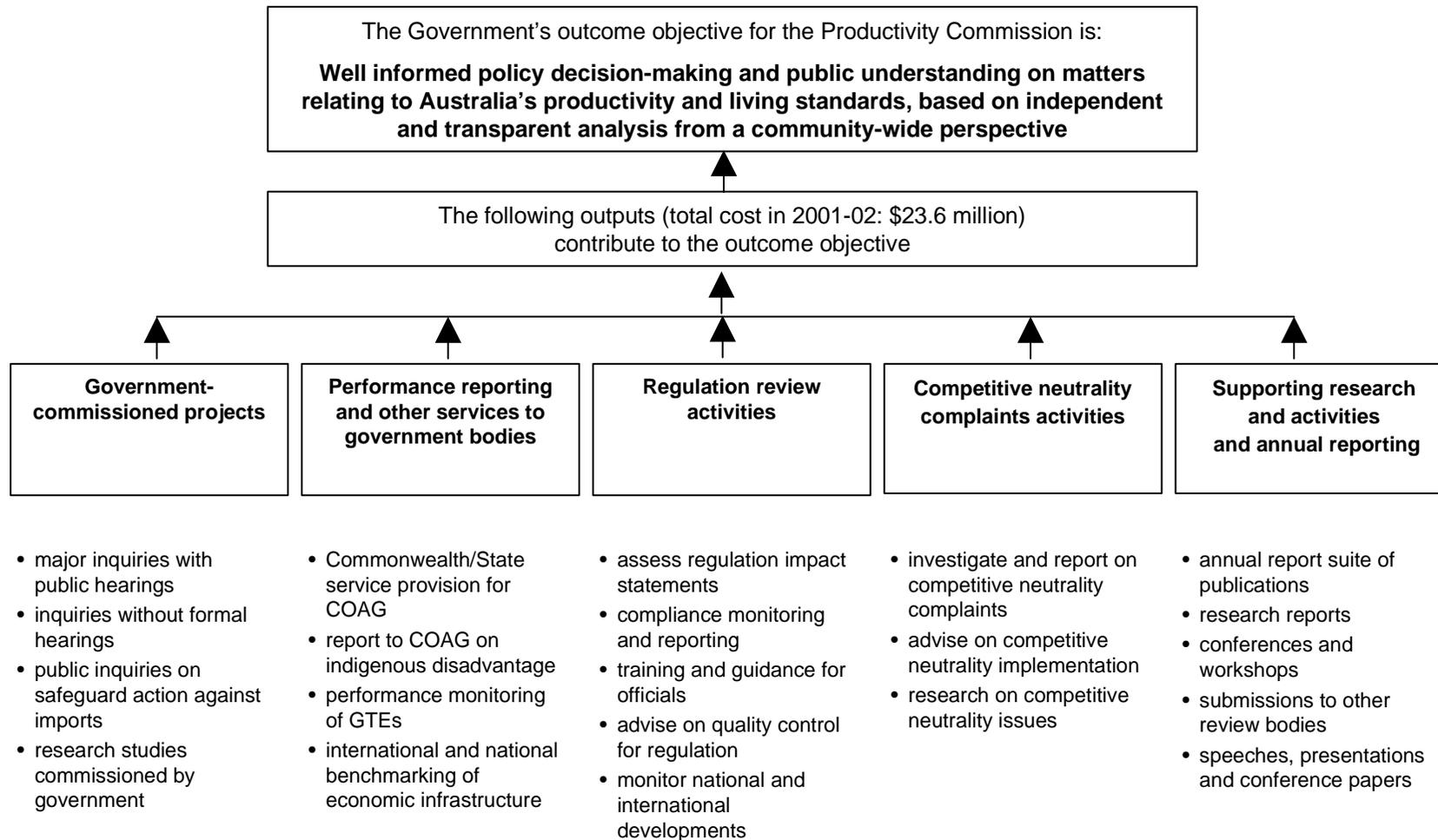
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

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

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

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

Figure B.1 **Productivity Commission outcome/output framework 2001-02**



Commission activities

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

- undertaking projects directly and individually commissioned by the Government;
- meeting standing research, investigatory and advisory functions specifically nominated by the Government; and
- 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 Government's policy priorities.

Government-commissioned projects have individual terms of reference. *Public inquiries* involve extensive public consultation — such as visits, submissions, workshops and public hearings — in the analysis of information, policy options and recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'position paper' 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 narrower in scope, and required in shorter timeframes, than inquiries. The Commission adapts its inquiry processes in conducting these studies, although it aims to provide some exposure of its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

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

- secretariat and research services for the Steering Committee for the Review of Commonwealth/State Service Provision. The Steering Committee is responsible for the publication of national performance indicators for service provision and (more recently) indigenous disadvantage, and related research reports;
- performance monitoring and related research reports on government trading enterprises that fulfil the commitment for the Commission to continue the work of the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises;
- national and international benchmarking of key economic infrastructure industries, a standing research direction from the Government. Although the Commission has some discretion in the choice of industry and timing, reporting is guided by an assessment of the Government's policy needs;

-
- advisory and research activities related to regulation review, together with annual reporting on compliance with the Government's regulation impact statement requirements (published as *Regulation and its Review*), as set out in the 1997 Charter of the Office of Regulation Review (box B.3);
 - reports and related activities necessary to meet the Commission's statutory obligation to investigate complaints about the implementation of the Commonwealth's competitive neutrality arrangements; and
 - statutory annual reporting on assistance and regulation affecting industry (published as the *Trade & Assistance Review*) and on industry and productivity performance generally (encompassed in the Commission's Annual Report).

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

The Commission also has a statutory mandate to conduct its own program of research to support its annual reporting and other responsibilities, and to promote community awareness and understanding of productivity and regulatory issues. This program of supporting research is guided by Government statements on policy priorities and parliamentary debate and committee work, and by drawing on an extensive consultation process with Commonwealth 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 outputs within the Commission's program of supporting research.

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

Interpreting performance indicators for the Commission

The Commission aims to demonstrate its effectiveness in meeting its outcome objective against a number of performance indicators, which have been agreed with the Treasurer (box B.1). Subsequent sections of this appendix report against these indicators for each of its five outputs. Feedback surveys undertaken in the year, use of Commission outputs in the parliamentary process and some general indicators of effectiveness, are also reported below.

Although a range of indicators on which to assess the Commission's performance in any one year is available, a number of factors need to be taken into account when interpreting them.

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

Box B.1 Performance indicators for Commission outputs	
<i>Output</i>	<i>Indicators</i>
Government-commissioned projects	Projects of a high standard, useful to government, undertaken in accordance with required processes and on time
Performance reporting and other services to government bodies	Reports of a high standard, useful to government and completed on time
Regulation review activities	Regulation Impact Statement assessments and associated activities of a high standard, advice useful to government and on time
Competitive neutrality complaints activities	Competitive neutrality complaints successfully resolved within 90 days, associated activities of a high standard and useful to government
Supporting research and activities and statutory annual reporting	Reports, projects and associated activities of a high standard, useful to government, raising community awareness and on time

Secondly, the Commission's work program often covers contentious and complex structural policy issues, where the Commission's impact should properly be assessed over the medium to long term. A number of recent examples relating to reports from previous years — Industries Assistance Commission reports from the 1980s, as well as those of the Industry Commission (addressing such issues as fuel taxation, parallel importing of computer software and clothing homeworkers), and Productivity Commission reports on gambling (1999) and broadcasting (2000) — demonstrate the 'shelf life' of Commission reports in policy formulation and debate (box B.2).

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

Fourthly, the Commission has no control over the release of its final inquiry reports, the time taken for decisions on such reports or the nature of the decisions themselves. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, is enhancing the transparency of government decision making on Commission reports and permitting 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 outcomes. The Productivity Commission Act requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt.

- Six of the inquiry reports completed in 2001-02 were released within the statutory period — telecommunications competition regulation, cost recovery, certain superannuation legislation, airport services, citrus and the Job Network. Government responses are reported in appendix C.
- Release of two inquiry reports — the Commission's reviews of the Prices Surveillance Act and the national access regime — exceeded the statutory period. Both reports were released, with government responses, about a year after their completion.
- There has been no formal response to the Commission's report of May 1999 on the implementation of ecologically sustainable development by Commonwealth departments and agencies. However, a number of developments since the release

Box B.2 The longer term influence of Commission reports

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

- The Fuel Taxation Inquiry Committee (2002) drew extensively on a number of past Commission reports, including the 1986 Industries Assistance Commission report, *Certain Petroleum Products — Taxation Measures*, and the 1994 Industry Commission report, *Petroleum Products*. In Background Papers for the inquiry, the Committee described these reports as the ‘most comprehensive Commonwealth studies of fuel taxation issues in the past two decades’. The final report of the Committee endorsed the conclusions of those reports that fuel-based charges provided poor signals for the use and supply of roads and that it is not yet possible to design fuel taxes that vary by location and time. In its consideration of the role of economic instruments in managing the costs that fuel users impose on the rest of the community, such as pollution and congestion, the Committee drew on the 1994 Industry Commission inquiry report, *Urban Transport*, and the 1997 Staff Research Paper, *The Role of Economic Instruments in Managing the Environment*. The Committee also referred to the conclusions of the 1987 report of the Industries Assistance Commission, *The Customs and Excise Bond Systems*, in its discussion of arrangements for deferring the payment of fuel excise.
- The 1995 Industry Commission report, *Computer Hardware, Software and Related Service Industries*, the Industry Commission 1996 report, *Book Printing*, and a 1999 Productivity Commission Staff Research Paper, *Trade-Related Aspects of Intellectual Property Rights*, were among a number of official reports used by the Government in the preparation of the Regulation Impact Statement, published as part of the Explanatory Memorandum, for the Copyright Amendment (Parallel Importation) Bill 2002.
- Analysis of the extent of homeworking in the Australian clothing industry and the consequences if award conditions were applied to homeworkers undertaken by the Industry Commission in its 1997 report, *The Textiles, Clothing and Footwear Industries*, was used by the Government in the Regulation Impact Statement which accompanied the Workplace Relations Amendment (Improved Protection for Victorian Workers) Bill 2002.
- The Commission’s 1999 report, *Australia’s Gambling Industries*, generated a high level of public interest that has not abated. It continues to be seen as a primary reference document for government officials, academics, consultants, journalists and others with an interest in gambling. It is widely cited — in government policy documents, policy debate in Federal and State Parliaments, in academic articles, newspaper editorials and elsewhere. It currently, and consistently, rates amongst the most popular of all reports accessed from the Commission’s website — some 9800 times in 2001-02 and 23 400 times since its release.
- The Commission’s 2000 *Broadcasting* report is cited regularly in policy debate, even though the Government has not responded formally to its recommendations. Aspects of the report are referred to extensively in parliamentary debate and in briefing materials prepared by the Parliamentary Library, including the Commission’s coverage of foreign ownership issues, the cross-media rules, the regulation of digital TV and datacasting, the role of media proprietors and indigenous broadcasting. The media regularly cite the report and aspects of it were the subject of six editorials in major newspapers in 2001-02. The report was accessed more than 5400 times from the Commission’s website in 2001-02 and has even been set as a university text.

of the report are consistent with the Commission's recommendations (appendix C, pp. 159–60). Other reports for which a formal response is outstanding are the report on broadcasting (March 2000) and the Industry Commission report on ecologically sustainable land management (January 1998).

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

Feedback surveys

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

The results of past surveys were reported in previous annual reports, including :

- a formal survey of perceptions about the quality of the Commission's work and the quality of its inquiry processes in July 2000 (PC 2000);
- a survey of ORR clients in 1999-2000 (PC 2000); and
- a survey of users and contributors to the Report on Government Services in July 2001 (PC 2001d).

In March 2002 the Chairman wrote to 26 'significant opinion formers', users and observers of the Commission's work, seeking feedback on the Commission. The purpose was to augment its systematic surveys on specific aspects of Commission processes and outputs by obtaining their insights on the effectiveness of the Commission in policy debate and influencing outcomes and suggestions for improvement. The responses were considered in depth as part of a two-day workshop for Commissioners and senior staff.

The Commission also undertook a survey of State and Territory Treasury officials in September 2002 for feedback on the quality and usefulness of the Commission's most recent report on the financial performance of government trading enterprises. Officials in several jurisdictions indicated that they use the report to monitor reforms and compare enterprise performance with other jurisdictions. The generally positive feedback and suggestions for improvement are reported later in this appendix.

The Commission systematically offers recipients and users of its reports the opportunity to provide feedback. Distributed printed reports usually contain a survey card. The index page for each report on the Commission's website provides the opportunity to provide feedback via e-mail and, from June 2002, has been supplemented with an on-line survey form, 'Have your say'. While the level of participation remains low, where comments are received, they are passed to management and authors for consideration.

Public hearings are an important part of the Commission's public inquiry process. To improve the organisation and conduct of hearings, the Commission invites participants to provide feedback on their experience. The limited feedback received in 2001-02 was generally positive. Areas nominated by some respondents for improvement were the advertising for hearings and further explanation of the hearing process.

The Commission continues to receive positive feedback from people who are sent the 'Productivity Commission News' — an e-mail service which advises of new report releases as they occur, and the start and completion of public inquiries. The service is advertised on the publications page of the Commission's website, and requests to be added to the distribution list are made daily. Feedback about the timeliness and content of the service has been encouraging. This service runs in parallel to an e-mail service for Members and Senators and the media.

Commission outputs and the work of the Federal Parliament

During 2001-02 nearly 50 Members and Senators in the Federal Parliament referred to 17 different Commission inquiries or reports, or to the Commission's role in policy processes, during parliamentary proceedings.

The inquiries and reports which figured most prominently in parliamentary mentions were the Commission's review of the Job Network, telecommunications competition regulation and post-2005 assistance options for the automotive industry. While these three accounted for nearly half of the mentions, other inquiry reports drawn on in parliamentary debate during 2001-02 included those on citrus, gambling, broadcasting, cost recovery and the impact of competition policy reforms on rural and regional Australia. The Minister for Health referred to the findings of the commissioned research study of international pharmaceutical price differences (July 2001) in debate on the Pharmaceutical Benefits Scheme. In debate on the Trade Practices Amendment (Telecommunications) Bill 2001, non-government Senators argued that the proposed abolition of appeal rights should await the Commission's final report on telecommunications competition regulation. Members and Senators also drew on a range of staff research reports, notably the report

analysing Australia's productivity performance and another on the statistical analysis of the impact of government business programs.

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

- A number of parliamentary committees during the year drew substantively on a range of Commission inquiry and research outputs in their own reports. The 12 parliamentary committee reports listed in table B.1 referred to 18 different Commission inquiries or research reports.
- In drawing on the Commission's broadcasting report, the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (2001) recommended that the Government implement the Productivity Commission's recommendations to establish a new licence category for indigenous broadcasters and to reserve spectrum for servicing indigenous communities.
- People appearing at the hearings of parliamentary committees in 2001-02 referred to a range of Commission outputs including inquiry reports (on broadcasting, telecommunications competition regulation, the Job Network, nursing home subsidies and the 1995 Industry Commission report on research and development), the Report on Government Services, and staff research reports on productivity, services trade and the impact of government business programs.
- Research material provided to parliamentarians during 2001-02 by the Parliamentary Library — such as Current Issues Briefs, Research Papers, Research Notes, Bills Digests and E-briefs — drew on a range of Commission outputs (table B.2). These included inquiry reports (in particular, broadcasting and gambling), the Report on Government Services, and Commission and Staff Research Papers.
- The Parliamentary Library's Electronic Briefs — which focus on subjects of current interest to the Parliament and provide Members and Senators with background and commentary, as well as website links — summarise a range of Commission work and provide direct links to material on the Commission's website. The E-briefs, *Digital Television and Datacasting* and *Media Ownership Regulation in Australia*, for example, made extensive use of the Commission's March 2000 Broadcasting report. They directed users to the Commission's coverage of foreign investment issues, the cross-media ownership rules, the creation of a media-specific public interest test in the Trade Practices Act, the influence of media proprietors and the regulation of digital television and datacasting; to the Commission's appendix summarising media ownership regulation in other countries; and to the ACCC submission to the broadcasting inquiry, which is available on the Commission's website.

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

Parliamentary Committee and report	Commission output used
Senate Select Committee on Superannuation and Financial Services, <i>Prudential supervision and consumer protection for superannuation, banking and financial services: First report</i> , August 2001	Productivity Commission inquiry, Review of the Superannuation Industry (Supervision) Act and Certain Other Superannuation Legislation
Senate Employment, Workplace Relations, Small Business and Education Committee, <i>Universities in Crisis</i> , September 2001	Industry Commission submission to the <i>Review of Higher Education Financing and Policy</i> , July 1997
House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, <i>We can do it!: The needs of urban dwelling Aboriginal and Torres Strait Islander people</i> , September 2001	Productivity Commission inquiry report, <i>Broadcasting</i> , March 2000
House of Representatives Standing Committee on Industry, Science and Resources, <i>Getting a better return: Inquiry into increasing the value added to Australian raw materials</i> , September 2001	Productivity Commission inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999 and Industry Commission inquiry report, <i>Telecommunications, Equipment, Systems and Services</i> , April 1998
House of Representatives Standing Committee on Environment and Heritage, <i>Public good conservation: Our challenge for the 21st Century, Interim report of the inquiry into the effects upon landholders and farmers of public good conservation measures imposed by Australian governments</i> , September 2001	Productivity Commission submission to the Committee, May 2000; Productivity Commission research paper, <i>Constraints on Private Conservation of Biodiversity</i> , July 2001; Productivity Commission staff research paper, <i>Cost Sharing For Biodiversity Conservation: A Conceptual Framework</i> , May 2001; consultancy report to the Productivity Commission, <i>A Duty of Care for the Protection of Biodiversity on Land</i> , May 2001; <i>Report on Government Services 2000</i> ; Industry Commission inquiry report, <i>A Full Repairing Lease: Inquiry into Ecologically Sustainable Land Management</i> , January 1998
House of Representatives Standing Committee on Economics, Finance and Public Administration, <i>Competing interests: is there balance? Review of the Australian Competition and Consumer Commission Annual Report 1999-2000</i> , September 2001	Productivity Commission inquiry draft report, <i>Review of the Prices Surveillance Act 1983</i> , October 2000; inquiry position paper, <i>Review of the National Access Regime</i> , March 2001; and inquiry draft report, <i>Telecommunications Competition Regulation</i> , March 2001

(continued next page)

Table B.1 (continued)

House of Representatives Standing Committee on Communications, Transport and the Arts, <i>Local voices: An inquiry into regional radio</i> , September 2001	Productivity Commission inquiry report, <i>Broadcasting</i> , March 2000
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Trade Practices Amendment (Telecommunications) Bill 2001</i> , September 2001	Productivity Commission inquiry draft report, <i>Telecommunications Competition Regulation</i> , March 2001
Senate Economics Legislation Committee, <i>Taxation Laws Amendment (Research and Development) Bill 2001</i> , September 2001	Industry Commission inquiry report, <i>Research and Development</i> , May 1995
Senate Legal and Constitutional References Committee, <i>Inquiry into s.46 and s.50 of the Trade Practices Act 1974</i> , May 2002	Productivity Commission inquiry, Review of Section 2D of the Trade Practices Act
Senate Legal and Constitutional References Committee, <i>Inquiry into the outsourcing of the Australian Customs Service's information technology</i> , May 2002	Industry Commission inquiry report, <i>Competitive Tendering and Contracting by Public Sector Agencies</i> , January 1996 and Productivity Commission report <i>Stocktake of Progress in Microeconomic Reform</i> , June 1996
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Report on the Broadcasting Services Amendment (Media Ownership) Bill 2002</i> , June 2002	Productivity Commission inquiry report, <i>Broadcasting</i> , March 2000

Table B.2 Parliamentary Library use of Commission outputs in 2001-02

<i>Parliamentary Library output</i>	<i>Productivity Commission output used</i>
Customs Tariff Amendment Bill (No. 4) 2001, Bills Digest No. 7 2001-02, 27 July 2001	Inquiry report, <i>Review of Australia's General Tariff Arrangements</i> , July 2000 (in relation to the Project By-law Scheme)
<i>Hospitals in Australia</i> , E-Brief, 20 December 2001	Report on Government Services; Commission Research Paper, <i>Private Hospitals in Australia</i> , December 1999
<i>Digital Television and Datacasting</i> , E-Brief, 3 January 2002	Inquiry report, <i>Broadcasting</i> , March 2000 (mandatory requirements for high definition TV and datacasting)
<i>Farming and Commonwealth Environmental Law</i> , Research Note 30 2001-02, 19 February 2002	Consultancy Report for the Commission, <i>A Duty of Care for the Protection of Biodiversity on Land</i> , May 2001
Radiocommunications (Transmitter Licence Tax) Amendment Bill 2002, Bills Digest No. 92 2001-02, 12 March 2002	Inquiry draft report, <i>Radiocommunications</i> , February 2002
<i>Media Ownership Regulation in Australia</i> , E-Brief, 26 March 2002	Inquiry report, <i>Broadcasting</i> , March 2000
<i>Commonwealth Support for Childcare</i> , E-Brief, 26 April 2002	<i>Report on Government Services 2002</i> ('an excellent overview of childcare in Australia')
Broadcasting Services Amendment (Media Ownership) Bill 2002, Bills Digest No. 132 2001-02, 8 May 2002	Inquiry report, <i>Broadcasting</i> , March 2000
<i>Gambling: An Australian Tradition on the Up!</i> , Research Paper No. 14, 2001-2002, 14 May 2002	Inquiry report, <i>Australia's Gambling Industries</i> , November 1999 ('wide-ranging discussions of all aspects of gambling, including its social impact')
Copyright Amendment (Parallel Importation) Bill 2002, Bills Digest No. 133 2001-02, 15 May 2002	Staff Research Paper, <i>Trade-Related Aspects of Intellectual Property Rights</i> , May 1999
<i>The Pharmaceutical Benefits Scheme: Options for Cost Control</i> , Current Issues Brief No. 12 2001-02, 28 May 2002	Commissioned Research Report, <i>International Pharmaceutical Price Differences</i> , July 2001
Export Market Development Grants Amendment Bill 2002, Bills Digest No. 149 2001-02, 29 May 2002	Staff Research Paper, <i>Statistical Analysis of the Use and Impact of Government Business Programs</i> , November 2001
Aviation Legislation Amendment Bill 2002, Bills Digest No. 144 2001-02, 29 May 2002	Inquiry report, <i>International Air Services</i> , September 1998

Other broad-based performance indicators

In addition to the performance indicators for 2001-02 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments during the year:

- At the ministerial meeting on public liability held on 30 May 2002, Commonwealth, State and Territory ministers and the President of the Australian Local Government Association agreed that the Commission be asked to benchmark Australian insurers' claims management practices against world standards and to report by December 2002. (The Commission received its terms of reference for this study from the Parliamentary Secretary to the Treasurer on 26 July 2002.)
- In a ministerial statement on public liability insurance made on 26 March 2002, the Victorian Minister for Finance proposed that the Commonwealth Government 'issue a reference to an independent body such as the Productivity Commission to advise on the data requirements for governments to properly manage their responsibilities in respect of insurance, and to provide up-to-date data on the structure and risks in the Australian insurance market'.
- Diverse private sector groups have called for the Commission to be given the task of analysing Australia's greenhouse gas abatement policies.
 - The Minerals Council of Australia considered that 'a way forward [on Australia's position on the Kyoto Protocol and greenhouse gases] is to engage the Productivity Commission to undertake comprehensive modelling of the impacts of greenhouse gas abatement policy measures on the energy market, the upstream and downstream industries, and the economy as a whole' (Hooke 2002).
 - Environment Business Australia (2002), a peak body representing the environment management industry in Australia, requested that the Commonwealth Government engage the Commission, as a 'neutral body', to undertake a full cost-benefit analysis of ratification of the Kyoto Protocol.
- Commissioners and staff have contributed opinion articles in the major metropolitan newspapers on the surge in Australia's productivity performance and its drivers, and the findings of the draft report on the Job Network. Commissioners also accepted invitations during the year to participate in radio forums discussing and explaining various aspects of its work, including international pharmaceutical price differences, investment attraction incentives for firms and trends in infrastructure prices.

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- At the invitation of the OECD, the Commission is participating in an international investigation of links between the adoption of new information and communication technologies and the performance of firms. The Australian contribution is being undertaken jointly with the Australian Bureau of Statistics, the Department of Industry, Tourism and Resources, and the National Office for the Information Economy. Invitations for the ORR to participate in international forums and to assist New Zealand Government officials are reported elsewhere in this appendix.
 - In addition to the media coverage reported elsewhere in this appendix, the Commission and its reports are widely cited in other publications. The Commission found evidence of more than 125 citations of the Commission and its reports in 2001-02. More than 70 per cent of citations related to the Productivity Commission, with almost 20 per cent in relation to inquiries and government-commissioned studies current in 2001-02. Mentions of the Commission's predecessor organisations comprised almost 30 per cent of citations. The citations were mostly in journals, in particular, *Agenda*, *National Economic Review* and the *Australian Journal of Public Administration* and in the *Business Review Weekly*.

Government-commissioned projects

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

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

The resources used in producing this output in 2001-02 are estimated to have been:

- 55.5 staff years; and
- \$9.0 million on an accrual basis.

All government-commissioned inquiries in 2001-02 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 2001-02

The Commission had 12 public inquiries and four government-commissioned research studies underway at some time during the year. The program of government-commissioned projects is summarised in table B.3.

The Commission undertook a range of inquiries in 2001-02. The four related inquiries on competition regulation of infrastructure services — the national access regime, telecommunications competition regulation, price regulation of airport services and a review of the Prices Surveillance Act — which were discussed in last year's annual report, were completed early to mid year. The inquiries into cost recovery arrangements for government agencies and a review of certain aspects of regulation of the superannuation industry commenced in the previous year, and described in the 2000-01 annual report, were also completed.

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

	2000-01					2001-02												2002-03							
	Month	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Public inquiries:																									
Review of the <i>Prices Surveillance Act 1983</i>																									
Cost recovery by government agencies																									
Telecommunications competition regulation																									
Review of the national access regime																									
Review of certain superannuation legislation																									
Price regulation of airport services																									
Citrus growing and processing																									
Independent review of the Job Network																									
Radiocommunications																									
Review of section 2D of the <i>Trade Practices Act 1974</i>																									
Harbour towage and related services																									
Review of automotive assistance																									
Commissioned research studies:																									
International pharmaceutical price differences																									
Impact of a foot and mouth disease outbreak																									
University resourcing																									
Removing tariffs on goods originating from LDCs																									
General practice compliance costs																									
Insurance claims management practices																									
Pharmaceutical Industry Investment Program																									
Great Barrier Reef water quality																									

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

The Commission commenced six new inquiries in 2001-02: radiocommunications; an independent review of the Job Network; citrus growing and processing; a review of section 2D of the *Trade Practices Act 1974*; the economic regulation of harbour towage; and automotive industry assistance. The inquiries on citrus growing and processing and the Job Network were completed in April and June respectively. The Commission's final report on radiocommunications was signed ahead of schedule on 1 July 2002 and is included as a 2001-02 output.

A research study on international pharmaceutical price differences requested by the Government in September 2000 was completed in July 2001. In late December 2001 the Parliamentary Secretary to the Treasurer asked the Commission to assess the potential economic, social and environmental impacts on Australia of a range of hypothetical outbreaks of foot and mouth disease. This was part of COAG's planning and preparedness for the management of an outbreak, should it occur. The Commission reported in June 2002. Terms of reference for a research study into university resourcing in Australia and other countries were received in June 2002. The study was commissioned by the Government to provide factual information that will assist the current policy review of higher education in Australia. In addition, in June 2002 the Government requested a technical research study to help it assess the effects, both at home and abroad, of removing remaining tariffs on imports from the world's least developed countries. As indicated in table B.3, the Commission received requests from the Government for four additional research studies shortly after the end of the financial year.

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

Table B.4 Public inquiry activity, 1998-99 to 2001-02

<i>Indicators</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
Inquiry references received	8	4	4	6
Issues papers released	9	4	5	6
Public hearings (sitting days) ^a	57	40	38	24
Organisations/people visited	440	103	217	318
Submissions received	996	1 017	460	847 ^c
Draft reports ^b	6	4	5	8
Inquiry reports completed	5	6	2	9
Inquiries on hand (at 30 June)	6	4	6	3

^a Excludes forums and roundtable discussions. ^b Includes draft and interim reports and inquiry position papers. ^c Includes more than 200 multiple copies of two submissions from different participants in the inquiry on radiocommunications.

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 nine inquiries and two commissioned research studies completed in 2001-02 are shown in table B.5.

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 1998-99 to 2001-02 are in table B.6.

Table B.5 Cost of public inquiries and other commissioned projects completed in 2001-02^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Review of the <i>Prices Surveillance Act 1983</i>	1 153
Cost recovery by government agencies	853
Telecommunications competition regulation	1 015
Review of the national access regime	850
Review of certain superannuation legislation	774
Price regulation of airport services	1 359
Citrus growing and processing	881
Independent review of the Job Network	832
Radiocommunications	1 484
International pharmaceutical price differences	656
Impact of a foot and mouth disease outbreak	438

^a Includes estimated overheads.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 1998-99 to 2001-02

<i>Expenditure item</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
	\$	\$	\$	\$
Travel	471 210	195 142	193 972	215 062
Printing	107 589	216 865	59 972	171 399
Consultants	228 509	49 262	2 882	106 621
Other ^b	240 072	222 355	265 923	164 354
Total	1 047 380	683 623	522 749	657 436

^a Expenditure other than salaries and corporate overheads. ^b Includes other costs, such as advertising, venue hire, court reporters/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 travel, the costs of any consultancies, printing costs and the duration of the inquiry or project.

Consultative processes

The practice of consulting widely with industry, government departments and agencies, academics and the broader community during the course of inquiries and government-commissioned research projects continued in 2001-02. Trends in the number of visits conducted and public hearing days held — which are heavily influenced by the nature of the policy issues referred to the Commission — are shown in table B.4. As appropriate, the Commission uses inquiry-like processes in the conduct of its other government-commissioned projects.

The Commission's practice of extending its consultative processes in inquiries beyond visits, hearings, seeking submissions and providing draft reports, continued during the year. The Commission held:

- workshops in six different locations around Australia to ensure the views of unemployed people were fully taken into account in its inquiry into the Job Network. Also, an additional hearing was organised in Newcastle to provide the Commission with an opportunity to gain first-hand evidence of the experience of unemployed people with the Job Network in the Hunter region;
- an economic modelling workshop as part of the inquiry into the automotive industry. Modellers, academics and representatives from the industry and government attended. The workshop provided an opportunity for discussion and comparison of the preliminary results of modelling contracted and undertaken by the Commission, as well as modelling work submitted by participants; and
- a workshop with industry participants to discuss the methodology, assumptions and preliminary results of various foot and mouth disease outbreak scenarios.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries. In particular, participants' submissions to all inquiries and transcripts of hearings (other than confidential information) are placed on the Commission's website. Internet access has increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. The index pages to submissions and hearing transcripts for inquiries current in 2001-02 were accessed from the website 27 170 times by external parties in the year to 30 June 2002.

Quality indicators

Quality assurance processes are built in to 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 workshops, noted above, also contributed to the Commission's quality assurance processes.

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

Timeliness

Seven of the inquiry reports and government-commissioned research projects completed in 2001-02 were completed on, or close to, schedule and three — the national access regime, radiocommunications and certain superannuation legislation — were completed ahead of schedule. Completion of the inquiry report on price regulation of airport services was delayed by a month.

For reasons outlined in last year's annual report, the Assistant Treasurer extended reporting dates for the inquiries on telecommunications competition regulation and the Prices Surveillance Act, and the research study on international pharmaceutical prices differences. This year, the Commission sought, and obtained, from the Assistant Treasurer a six week extension to the nine month reporting period for the review of certain superannuation legislation. The extension was to enable participants adequate time to respond to the Commission's draft report, which had been delayed as a result of the complexity of the inquiry that involved more than 1000 pages of legislation and regulations. The six month inquiry into citrus growing and processing was extended by five weeks by the Parliamentary Secretary to the Treasurer. The Commission requested an extension due to industry participants requiring additional time to prepare submissions and the sudden illness of the initial Presiding Commissioner, Professor Richard Snape.

The finalisation of the inquiry report on the regulation of airport pricing was delayed from 21 December 2001 to 23 January 2002. Following the illness of Professor Snape after the hearings on the draft report, the Chairman formally joined the Division of the Commission for the inquiry. As a consequence, completion of the report by Mr Banks, Professor Snape and Dr Byron was necessarily delayed.

Two inquiries underway in 2001-02 but completed shortly thereafter — automotive industry assistance and the review of section 2D of the Trade Practices Act — were finished 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.

- The Commission's impact on policy making is revealed most directly through government decisions on its reports. In responding with interim or final responses to recent inquiry reports:
 - the Government endorsed all or most of the Commission's principal recommendations for the price regulation of airport services, telecommunications competition regulation, the national access regime, cost recovery by government agencies and certain superannuation legislation;
 - while agreeing with many Commission recommendations for the Job Network, the Government did not support a number of key proposals at present, although it would give further consideration to them as employment services policy evolves; and
 - while agreeing to repeal the Prices Surveillance Act, decided to retain more extensive price control powers and processes than recommended by the Commission.
- Government decisions on these recent inquiry reports confirm the consistent usefulness of the Commission's inquiry work to the Government, Parliament and the broader community. While commentators may make their own judgements, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments typically adopt a substantial majority of Commission recommendations and generally endorse its findings (table B.7). Further, the nature and extent of references to Commission inquiry reports suggests that those reports have materially contributed to the quality of policy debate in Federal, State and Territory Parliaments, as well as more generally within the media and general community.
- In commenting on the release of the commissioned research study on the implications for Australia of an outbreak of foot and mouth disease, the Acting Minister for Agriculture, Fisheries and Forestry stated that the Commission had 'thrown some light on a number of important policy issues' and that its report 'gave some real perspective as background to the September [2002] simulation of an FMD outbreak' (Macdonald 2002).

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

	<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
1	Australian Black Coal Industry (July 1998)	The Commonwealth Government supported all of the Commission's recommendations and intended to work with the New South Wales and Queensland Governments to ensure their implementation.
2	International Air Services (September 1998)	The Government agreed to implement substantial liberalisation of the regulatory framework, though not to offer unrestricted access to Australia's major airports nor to remove cabotage restrictions.
3	Pig and Piguement Industries: Safeguard Action Against Imports (November 1999)	The Government concurred with the Commission's findings on safeguard action; eschewing tariff and quota restrictions and opting for adjustment assistance for the industry.
4	Nursing Home Subsidies (January 1999)	The Government accepted a range of Commission recommendations but rejected others. The report continues to be a key reference in Parliament, State and community debate on aged care.
5	Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies (May 1999)	Although no formal government response has been issued, developments since release of the report are consistent with the Commission's proposals for integrating ESD principles in decision making and agency reporting and for improvements in data collection.
6	Progress in Rail Reform (August 1999)	The Commonwealth broadly endorsed a number of the Commission's recommendations relating to areas of Commonwealth responsibility. In other areas, it deferred consideration of Commission recommendations, contingent on progress with reform within existing institutional arrangements.
7	International Telecommunications Market Regulation (August 1999)	The Government endorsed nearly all of the Commission's principal findings.
8	Impact of Competition Policy Reforms on Rural and Regional Australia (September 1999)	The Government welcomed the evidence of the benefits of national competition policy to rural and regional Australia and endorsed the thrust of the Commission's recommendations. The Commission's findings on the impacts of competition reforms and the wider economic and social drivers of change were used in parliamentary debates, in national competition policy processes and wider community debate on competition policy.
9	International Liner Cargo Shipping (September 1999)	The Government accepted all of the Commission's key recommendations.

10	Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories; and it is the prime reference source on problem gambling for community groups and the media. Three years on, it continues to be the most accessed inquiry report on the Commission's website.
11	Broadcasting (March 2000)	The Government has not formally responded to the report. Nevertheless, the portfolio minister cited the report when announcing that the Government was considering an overhaul of media ownership laws; the report is referred to extensively in parliamentary debate and briefing material on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and the media continue to cite it regularly.
12	Review of Australia's General Tariff Arrangements (July 2001)	The Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system.
13	Review of Legislation Regulating the Architectural Profession (August 2000)	Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession.
14	Review of the Prices Surveillance Act (August 2001)	While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission.
15	Cost Recovery by Government Agencies (August 2001)	The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response.
16	Telecommunications Competition Regulation (September 2001)	The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes.
17	Review of the National Access Regime (September 2001)	In an extensive interim response, the Government endorsed the majority of the Commission's recommendations, in particular, the provision of clearer directions to regulators and greater certainty for investors.

(continued next page)

Table B.7 (continued)

18	Review of Certain Superannuation Legislation (December 2001)	The Government agreed that legislative changes were needed to reduce compliance costs, would implement a number of Commission recommendations and further examine others, but did not accept proposed reforms to institutional arrangements for handling complaints. In a subsequent response to a report by the Superannuation Working Group, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement.
19	Price Regulation of Airport Services (January 2002)	The Government supported all of the major elements of the Commission's preferred approach for a light-handed regulatory regime, involving a 'probationary' period of price monitoring.
20	Citrus Growing and Processing (April 2002)	The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. The Commission's recommendations would be carefully considered before a formal response was provided.
21	Independent Review of the Job Network (June 2002)	The Government welcomed the report as a significant and authoritative examination of the Job Network and agreed with a number of Commission recommendations. It had already changed the design of some Job Network features on the basis of the Commission's draft report. However, the Government did not support some key Commission recommendations at present, but would give consideration to them as employment services policy evolves.

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- Reference during parliamentary proceedings to Commission inquiry reports and government-commissioned research studies completed in this and previous years is an indicator of their continuing usefulness to parliamentarians. For example:
 - Inquiries or commissioned research studies current in the year were referred to on 47 separate occasions by Members and Senators in the Federal Parliament in 2001-02. Reports on telecommunications competition regulation, the Job Network and automotive industry assistance were mentioned most frequently. Reports from previous years were referred to on 12 other occasions.
 - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 24 occasions. The 1999 report on gambling was cited 14 times, but the draft report on the Job Network, the 1999 report on nursing home subsidies, the study on the environmental performance of commercial buildings and a forthcoming commissioned research study on public liability insurance claims management practices were also mentioned.
 - 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 way they are used in the broader community. For example:
 - Submissions to the Trade Practices Review Committee by the Victorian Government, Business Council of Australia, Australian Chamber of Commerce and Industry, National Farmers' Federation, Business Law Committee of the Law Council of Australia, Telstra, Virgin Blue and Woolworths cited the Commission's inquiry report on telecommunications competition regulation in their arguments. Other Commission inquiry reports cited in submissions to the Review were *Broadcasting* (Seven Network) and *Impact of Competition Policy Reforms on Rural and Regional Australia* (Commonwealth Department of Transport and Regional Services).
 - The Commission was invited to provide an article on its modelling of the effects of an outbreak of foot and mouth disease for the Winter 2002 edition of *Connections*, an online extension publication of the Agribusiness Association of Australia and the Australian Agricultural and Resource Economics Society.
 - Other measures of usefulness are the invitations the Commission received in 2001-02 to present papers to business and community groups and to conferences (table E.1). During the year the Chairman, Commissioners and staff made presentations on the regulation of economic infrastructure (drawing on the reports on the national access regime, telecommunications competition

regulation, airport pricing and the review of the Prices Surveillance Act), the Job Network, cost recovery arrangements and the regulation of architects.

- Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.
 - For inquiries current in 2001-02, the index pages for inquiries, reports, submissions and hearing transcripts on the Commission's website were accessed by external parties approximately 112 200 times in the year to 30 June 2002, with the most visits to the web pages for telecommunications competition regulation (19 900 times), Job Network (16 200 times) and the national access regime (11 000 times). The 1999 report on gambling was the most accessed inquiry report during the year (9800 times).
 - Inquiries and reports receive extensive media coverage — in 2001-02 there were 21 editorials in major newspapers on current and recent Commission inquiries. These included six editorials in major newspapers mentioning the Commission's broadcasting report, four on gambling, and three on the automotive assistance inquiry. Other Commission inquiries reported in editorials were airport pricing, the Job Network, nursing home subsidies, the general tariff review, telecommunications competition regulation and the inquiry on certain superannuation legislation. In addition, the Industry Commission reports on State Government assistance to industry (1996), automotive assistance (1997) and private health insurance (1997) were also cited in editorials in 2001-02.
 - Commission inquiries current in 2001-02 received a total of more than 1180 mentions in print and electronic media during the year, accounting for around 45 per cent of all such mentions of the Commission. The inquiries on the Job Network, citrus growing and processing and automotive industry assistance received the most coverage.

Performance reporting and other services to government bodies

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

- provides secretariat, research and report preparation services to the Steering Committee for the Review of Commonwealth/State Service Provision in respect of reporting on the efficiency and effectiveness of government services, and developing key indicators for reporting on indigenous disadvantage;

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- continues performance monitoring and related research on government trading enterprises (GTEs), work the Commission previously undertook for the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises; and
 - undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

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

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

The resources used in producing this output in 2001-02 are estimated to have been:

- 24.7 staff years; and
- \$3.4 million on an accrual basis.

Activities in 2001-02

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

- *Report on Government Services 2002*, 2 volumes (and on CD-ROM with supporting tables), January 2002;
- *Asset Measurement in the Costing of Government Services*, Research Paper, September 2001;
- *Financial Performance of Government Trading Enterprises 1996-97 to 2000-01*, Performance Monitoring Report, June 2002;
- *Trends in Australian Infrastructure Prices 1990-91 to 2000-01*, Performance Monitoring Report, May 2002;
- *International Benchmarking of Remote, Rural and Urban Telecommunications Services*, Research Report, July 2001; and
- *Electricity Prices and Cost Factors*, Staff Research Paper, August 2001.

Review of Commonwealth/State Service Provision

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

The seventh Report on Government Services was released in January 2002. The Review's underlying philosophy is one of continuous improvement, with the Steering Committee endeavouring to build on enhancements in the previous year. The 2002 Report:

- improved comparability, timeliness and quality of data for existing performance indicators, along with enhanced reporting on special needs groups and full costs to government;
- included new performance indicators reported for the first time in the health, court administration, aged care and disability services chapters;
- improved the quality of descriptive data and contextual information in the emergency management, juvenile justice and aged care services chapters; and
- for the first time, included reporting on a targeted indigenous program — the Aboriginal Rental Housing Program — in addition to reporting on mainstream services to indigenous people.

The estimated cost to the Commission of assisting governments in the production of the 2002 Report and related Review activities in 2001-02 was around \$1.8 million (compared to \$1.6 million in 2000-01).

The Review is continuing to refine performance measures for government services and to improve the comparability of the data published.

This year, work was undertaken on the Review's approach to the performance indicator frameworks used in the Report. The Steering Committee has agreed to a refinement of the existing approach for future reports which better reflects the accrual accounting and outcomes reporting focus of governments.

A survey on asset measurement in the costing of services was published in September 2001. The aim of the survey was to assess the comparability of data across jurisdictions in the areas of corrective services, police, public hospitals and public housing. The results suggested that the distortions created by different asset measurement techniques are generally relatively small and do not create major

comparability issues for the cost data featured in the Report on Government Services.

Efforts continue to be made to improve the reporting of data on service provision to indigenous Australians.

Report on indigenous disadvantage

At its 5 April 2002 meeting, as part of its Reconciliation Plan, the Council of Australian Governments commissioned the Steering Committee to:

produce a regular report against key indicators of indigenous disadvantage. This report will 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.

The Steering Committee subsequently set up a Working Group to develop a framework for reporting. The Working Group, which is chaired by the Commission's Chairman, comprises representatives from all jurisdictions, along with one each from the Standing Committee of Officials for the Ministerial Council for Aboriginal and Torres Strait Islander Affairs, the Aboriginal and Torres Strait Islander Commission, and the Australian Local Government Association. It is anticipated that the first report will be produced by September 2003.

Performance monitoring of government trading enterprises

The Commission completed its annual study of the financial performance of government trading enterprises in June 2002. It provided a range of financial indicators for 64 enterprises between 1996-97 and 2000-01 and examined approaches to asset valuation, debt management and community service obligations. This report one of a series that succeeded a broader series of studies by the Steering Committee on National Performance Monitoring of Government Trading Enterprises, for which the Commission provided the secretariat. These studies form part of a continuing program of research into the performance of economic infrastructure industries and the impact of microeconomic reforms.

The Commission also undertook a study of price trends in economic infrastructure services provided by existing and former government trading enterprises over the decade to 2000-01.

International benchmarking

The Commission completed two international benchmarking studies of key Australian infrastructure industries during the year. It also began a project looking at trends in container handling rates and charges at Australian and overseas ports, and another involving international benchmarking of water rights arrangements.

A study of the accessibility, quality and price of telecommunications services in remote, rural and urban areas in Australia and other countries was completed in July 2001. The study was intended to complement the Government's earlier Telecommunications Service Inquiry (the Besley report) into the adequacy of services in metropolitan, regional, rural and remote areas. The scope of the Commission's study differed in that it specifically compared remote-rural-urban service and price relativities with those in other countries.

The Staff Research Paper on electricity prices and cost factors had its origins in a project to benchmark electricity prices internationally, as part of the Commission's series of such studies. The usefulness of benchmarking as a guide to relative performance depends critically on an ability to compare like with like, or to make allowance for differences in the operating environment that may be outside a utility's control. Despite considerable effort by the research team and consultants, this did not prove possible in this case. By identifying key cost factors and their relative significance, the Staff Research Paper provided some guidance as to where further information and research is most needed if, as the industry argues, price regulation is to move in the direction of more light-handed productivity-based methodologies.

Quality indicators

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

The Commission's work for the Review of Commonwealth/State Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 12 national working groups comprising representatives from 85 government agencies — totalling around 200 people who provide specialist knowledge on each service area — and draws on other bodies such as the Australian Bureau of Statistics, the Australian Institute of Health and

Welfare, and committees established under Ministerial Councils. The largely positive views on the quality of information in the 2001 Report on Government Services were reported in last year's annual report.

The Commission's quality assurance processes for its reporting on the financial performance of government trading enterprises includes giving State and Territory Treasury departments the opportunity to review drafts prior to publication. In addition to internal refereeing processes, several pieces of work also benefited from review by industry specialists to confirm that the Commission had accurately reported and interpreted technical information. A survey of State and Territory Treasury officials conducted by the Commission revealed that the report is generally considered to be well presented and of a high standard.

Quality in the reporting on trends in Australian infrastructure prices was assured by distributing drafts of each report chapter to the relevant utilities for checking and comment. Price trends for urban water supply and sewerage had not been estimated previously because of the complexity and data intensity of the task. The Commission is the first to document the change in cost to households in the transition from property-based to user-based charges.

The Commission received positive feedback from the workshop held in May 2001 on the quality of a work-in-progress draft on the study methodology and results of the study of remote, rural and urban telecommunications services. The workshop involved industry, consumer groups, government agencies and consultants. Given rapid developments, the main concern was the currency of the information. The Commission responded by updating the information contained in the report before its release.

The Commission consulted widely with government, industry and others during the development of its approach to benchmarking the electricity supply industry. A study brief was posted on the Commission's website and an open invitation to participate was issued. Comment on the accuracy of information on regulatory arrangements was obtained from industry in Australia and overseas, and an expert referee was engaged to assist with technical matters. Comments from participants in a workshop, held in July 2001, on the study methodology and the presentation of the results and their interpretation, informed the final research paper.

Timeliness

The reports on government services, asset management, and remote, rural and urban telecommunications services were completed on schedule.

Release of the report, *Financial Performance of Government Trading Enterprises, 1996-97 to 2000-01*, was one month later than anticipated because resource constraints required a later start to the project than in previous years.

The report on trends in Australian infrastructure prices was released two months behind the Commission's anticipated schedule because of difficulties in obtaining some of the necessary data and the complexities involved in estimating price trends. Part of the delay was caused by government departments and government trading enterprises having to access archived records to provide the data required to report trends over the last decade.

The report on electricity prices and cost factors report was released one month behind schedule. This was because of the late receipt of a consultant's report that was delayed by allowing additional time for those overseas utilities selected as benchmarking partners to consider cooperating in the study.

Indicators of usefulness

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

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

- Feedback from Steering Committee members — senior representatives from the Commonwealth, State, Territory and local government — and from departmental secretaries and chief executives indicates that the 2002 Report was generally well received and that the reports on government services continue to be important inputs to budgetary negotiations, benchmarking and policy reviews.
- The ongoing commitment of the various jurisdictions to improving and enlarging the scope of the Review's reporting confirms its relevance, credibility and quality. The results from the feedback survey reported in last year's annual report are another indicator of the usefulness of the Report. Usefulness is also indicated by COAG assigning responsibility for reporting on indicators of indigenous disadvantage to the Steering Committee.
- A variety of performance information sourced to the 2002 (and earlier) reports has been used in parliamentary proceedings this year by government and opposition members in Federal and State parliaments. During 2001-02, data from the Report were used, for example:
 - in the Federal Parliament in relation to educational participation and in Parliamentary Library briefings on hospitals and childcare, the latter

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- describing the relevant chapter in the Report as ‘an excellent overview of childcare in Australia’; and
- in other parliaments in relation to disability services, nursing home care, student–teacher ratios and school retention rates, child protection, acute care in public hospitals and personal injury litigation.
 - The NSW Treasury (2001a) drew on the 1997 Steering Committee Research Paper on data envelope analysis (that included Victorian acute health care services) in its guide to measuring the economic performance of general government sector agencies.
 - Media coverage of the 2002 Report on Government Services was extensive. In the period since its release, there have been 85 press articles drawing on the Report and it has been mentioned 120 times and 8 times on radio and television, respectively. A total of 1486 bound copies and 132 CD-ROMs of the report were distributed by the Commission and a further 254 copies (in book and CD form) were sold through government bookshops.
 - External parties used the Commission’s website to access the 2002 Report around 14 200 times in the five months to 30 June 2002. The 2001 Report continued to be accessed from the website throughout 2001-02, with around 8000 visits from external parties. In total, there were nearly 30 000 website visits by external parties in 2001-02 to the index pages of Review publications (including research reports produced under the auspices of the Review).
 - The Chairman and secretariat staff provided five presentations on various aspects of the Review in 2001-02, one of which was to a delegation from the Philippines Government (appendix E). The invitation to address the Measuring and Managing Government Performance Summit in February 2002 provided an opportunity for the Chairman to outline the broad approach of the Review and to respond to some recent criticisms of the Review by senior members of the NSW judiciary.

Evidence of the usefulness of the report on the *financial performance of government trading enterprises* (GTEs) is available from a number of sources.

- Responses to the Commission’s recent survey of State and Territory Treasury officials revealed that the report is considered to be a useful source of information on the progress of microeconomic reform. In particular, the inclusion of a consistent time series for GTEs across all jurisdictions and a summary of changes affecting these GTEs over time is highly valued. Another perceived strength of the report is the independence of the Commission.
- Officials in several jurisdictions indicated that they use the report to monitor reforms and compare GTE performance with other jurisdictions. The report is

used in one jurisdiction as part of the GTE corporate planning process and to demonstrate the financial performance of GTEs in presentations to ratings agencies.

- The survey also revealed some suggestions for improving the usefulness of the report.
 - Several officials commented that the Government Finance Statistics used in the report sometimes created confusion where results differed from audited financial statements. One suggestion to increase the usefulness of the report was to include a note about the key differences between the two.
 - Some officials commented that the report would be more useful if it was published earlier in the year. However, the Commission is constrained by the availability of financial statements. In some cases, the Commission has received statements as late as eight months after the end of the financial year.
- The usefulness of the report is also indicated by queries and requests throughout the year for additional information by academics, government agencies and GTEs on a range of issues addressed in the report. In presenting information on electricity suppliers from the latest GTE report for members of the Electricity Supply Association of Australia, the view was that the report ‘deserves rather more than the cursory treatment it gets in the media’ (Orchison 2002). Information included in the GTE reports was also used in recent publications examining microeconomic reforms in the water industry (for example, Fullerton 2001). External parties continue to access past reports from the Commission’s website.

The usefulness of the report, *Trends in Australian Infrastructure Prices 1990-91 to 2000-01*, in raising community awareness of the outcomes of policy reforms is indicated by the extensive media coverage it has received since its release in May 2002. There have been 15 press articles drawing on the report and it has been mentioned 50 times on radio and television. A total of 450 copies of the report were distributed by the Commission. External parties used the Commission’s website to access the report more than 1300 times in the month following its release.

The usefulness of the Commission’s *benchmarking studies* is evident from:

- invitations to present the findings from the studies on remote, rural and urban telecommunications services and on electricity prices and costs at conferences;
- the use external parties make of the benchmarking publications on the Commission’s website — the recent studies of telecommunications services and electricity were accessed around 3000 and 2100 times, respectively, in the period to 30 June 2002; and

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- a recent consultancy report, prepared for the Rural Industries Research and Development Corporation (2002), that drew extensively on the Commission's 1998 study benchmarking the performance of Australia's waterfront and which provided the base from which to assess improvements in performance.

Regulation review activities

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR), which is a separate unit within the Productivity Commission. The activities of the ORR in the past year are covered in detail in the Commission's publication, *Regulation and its Review 2001-02*.

The objective of the Commission's regulation review activities is to promote regulation making processes that, from an economy-wide perspective, improve the effectiveness and efficiency of legislation and regulations. The ORR provides advice to more than 100 regulators, including 60 Commonwealth departments and agencies and about 40 Ministerial Councils and national standard-setting bodies. The ORR aims to assess Regulation Impact Statements (RISs) and undertake associated activities to a high standard and provide objective and insightful advice that is timely and useful to government.

The resources used in producing this output in 2001-02 are estimated to have been:

- 18.0 staff years; and
- \$2.2 million on an accrual basis.

Activities in 2001-02

The range of activities that the ORR is required to undertake is set down in its Charter (box B.3).

In advising on quality control mechanisms for reviewing and making regulation in 2001-02 (including examining and advising on RISs), the ORR:

- analysed some 709 RIS queries and regulatory proposals from Commonwealth departments and agencies. Of the regulatory proposals reported to have been made or tabled in 2001-02, the ORR advised that 145 proposals required a RIS and provided comments on 130 RISs subsequently prepared;
- continued to work with, and provide assistance to, the Office of Small Business in relation to the development of regulatory plans and regulatory performance indicators;

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- analysed 29 regulatory proposals considered by Ministerial Councils and national standard-setting bodies and provided advice on 23 RISs which were considered by these decision-making bodies; and
 - reported to the National Competition Council on the setting of national standards and regulatory action by Ministerial Councils and national standard-setting bodies, for the year to March 2002.

During the past year, the ORR provided formal RIS training on regulatory best practice to 200 Commonwealth officials. It also provided extensive advice and assistance with preparation of RISs, as needed, on an issue-by-issue basis.

Regulation and its Review fulfils the Productivity Commission's and ORR's obligation to report annually on compliance with the Government's regulation review requirements. The report for 2000-01, continued the initiative — begun in 1998-99 — of reporting in greater detail on compliance by portfolio. It also canvassed regulatory issues more broadly, emphasising the importance of RIS requirements to good policy process and high quality regulatory outcomes.

In monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2001-02, the ORR also:

Box B.3 Charter of the Office of Regulation Review

In 1997, the Government directed the ORR to issue a charter outlining its role and functions. The ORR's seven principal activities are to:

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

Whilst these are ranked in order of the Government's priorities, the ORR must concentrate its resources where they will have most effect. The ORR, together with the Treasury, advises the Parliamentary Secretary to the Treasury on legislation review matters.

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- organised the annual meeting of regulation review units, representing all States, the ACT and New Zealand, in July 2001, providing a forum for exchange of information among officials from different jurisdictions;
 - advised an international audience at a conference in July 2001, hosted by the NSW Parliament, on the essential elements of a RIS and regulatory best practice;
 - represented Australia at a meeting of the Regulatory Management and Reform Working Party of the OECD in Paris in July 2001, which examined lessons from different countries' experiences with regulatory management and reform;
 - presented papers at the APEC–OECD 'Cooperative Initiative on Regulatory Reform' workshops in Beijing (China) in September 2001 and Merida (Mexico) in April 2002;
 - presented a paper in March 2002 on the Government's RIS requirements for international treaties at the Commonwealth Department of Foreign Affairs and Trade conference — Treaties in a Global Environment; and
 - assisted New Zealand Government officials by providing briefing and training in Wellington in July 2001 and April 2002 on RIS processes and lessons from Australia's experiences with RISs. The ORR provided training about regulatory best practice processes and RISs to 140 New Zealand Government officials during 2001-02. In addition, the ORR also hosted a delegation of officials from New Zealand's Ministry of Economic Development, who were in Australia to study the Commonwealth's regulatory review and reform systems.

A restructuring of the ORR, to facilitate a renewed focus on research, was finalised in 2001-02. It is planned to undertake international benchmarking of regulatory review requirements and procedures across selected OECD countries. Future research will also examine systems for measuring outcomes stemming from the RIS and other regulatory quality control processes.

Quality indicators

As the scope of the ORR's work covers the whole of government, its staff must be able to understand a wide range of complex regulatory issues. However, the confidentiality of RISs considered by Cabinet limits the extent to which specific matters can be reported publicly.

Evidence of the quality of ORR work is provided by feedback from other government bodies, both those that prepare RISs and those that use them. The most recent client survey results (for 1999-2000) rated the ORR as providing an 'above average' service for all aspects of its RIS-related work, including: the ability to understand the regulatory issue being dealt with; clarity of ORR advice; overall

competence of ORR staff relative to other departments that respondents dealt with; and the working relationship between departments and agencies, and the ORR. Another client survey of the performance of the ORR is planned for 2002-03.

The ORR surveyed 100 officials who received ORR training in regulatory best practice in 2001-02. Responses indicate that such training was generally well received, with 85 per cent rating the training as either 'excellent' or 'good'. No respondents considered ORR training to be 'unsatisfactory'.

Timeliness

Timeliness also provides an indication of the ORR's performance. As a general rule, officials preparing a RIS are asked to allow the ORR two weeks to provide advice on the adequacy of RISs. In practice, the ORR provided formal feedback to departments and agencies within 5 working days for about 80 per cent of all RISs received in 2001-02. Where further redrafting is necessary, additional time may be needed to ensure that an adequate standard is achieved.

However, during 2001-02, there were a large number of instances where departments and agencies requested advice on their RISs within a few days, or even hours. While the ORR was able to meet these requests, such short timeframes make it difficult to give proper consideration to all the issues raised by the RIS.

Under the *COAG Principles and Guidelines*, the ORR is required to provide advice on RISs for Ministerial Councils and national standard-setting bodies in a timely manner. When asked for advice in two weeks or less, the ORR provided advice within the specified timeframe on all occasions in 2001-02.

The ORR has also delivered its other outputs in a timely manner. For example, it prepared a report to the National Competition Council on compliance with the *COAG Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*. This report, which covered compliance for the 12 months to the end of March 2002, was completed on schedule. This assisted the Council in completing its annual third tranche assessment of the compliance of jurisdictions with the requirements of national competition policy.

The timely provision by the ORR of feedback and advice illustrates its commitment to providing an effective and timely service to other areas of government.

Indicators of usefulness to government

The usefulness of the Commission's regulation review activities in contributing to government policy making and promoting community understanding of regulatory review and reform issues is demonstrated by a range of indicators, including:

- Compliance with the Government's RIS requirements is improving.
 - Of the 145 regulatory proposals made or tabled in 2001-02 that required preparation of a RIS, 88 per cent complied with the RIS requirements at the decision-making stage. This compares to the 82 per cent RIS compliance rate in 2000-01.
 - Of the 123 regulatory proposals that required a RIS and were tabled in Parliament in 2001-02, 94 per cent complied — higher than the 89 per cent compliance rate achieved in the previous year.
 - For significant regulatory issues, the RIS compliance rate in 2001-02 was 70 per cent, higher than the 60 per cent compliance rate for 2000-01.
 - Although the number of RISs made or tabled in 2001-02 was less than that in 2000-01 — due to the proroguing of Parliament for the Federal election — the total number of queries from departments and agencies regarding regulatory best practice RIS processes remained strong. This suggests that awareness of the RIS requirements among officials remains reasonably high.
- Informal feedback provided by Commonwealth officials generally indicates that departments and agencies find the ORR contribution to be constructive, timely and positive.
 - Where policy development processes in departments and agencies follow the key elements of a RIS — such as the identification of problems and objectives, examination of a range of feasible options and a cost-benefit assessment of each of these options — the preparation of a RIS should generate little additional work. RISs can also assist departments and agencies engage in targeted consultation about regulatory issues. In such cases, RISs document and enhance the transparency of the existing policy-development process.
 - By contrast, where departments and agencies find that preparing a RIS involves considerable additional work, this may be a signal that their internal policy-making processes are not meeting the Government's regulatory best practice requirements. In such cases, regulatory problems and objectives may be poorly defined, a range of feasible options may not be considered, cost-benefit assessments of options may be incomplete and regulatory proposals may be developed without adequate consultation with the community and relevant stakeholders.

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- The ORR contributed to a number of initiatives by Commonwealth departments and agencies to better integrate the RIS process into their policy development systems during 2001-02.
 - The Department of Industry, Tourism and Resources, for example, has sought to increase awareness within the Department of the Government's RIS requirements through a concerted effort by its senior management and Cabinet Liaison Office to draw these requirements to the attention of officers, and to encourage officers to contact the ORR early in the policy development process. This process has also been assisted by the development of an internal departmental paper, *A Framework for Considering Business Regulation*, to be used as an in-house reference for all officers in the development and assessment of regulation with an impact on business.
 - Another example of the integration of the RIS process with an existing policy development process concerns the Australian Broadcasting Authority. When preparing Licence Area Plans for radio and television broadcasts for various regions, the Authority releases detailed discussion papers which contain an analysis of the relevant issues and a discussion of options and the views of stakeholders. The ORR has agreed that, with some modification, these documents will satisfy the RIS requirements. In future, it will assess the analysis in these documents instead of requiring the preparation of a separate RIS for each proposal.
 - The ORR is also working with Food Standards Australia and New Zealand to assist in better integrating RIS processes within its policy development procedures. In 2001-02, a protocol was drafted to clarify working arrangements between Food Standards Australia and New Zealand and the ORR on best practice processes in respect to the COAG's RIS requirements.
 - The ORR has attempted to achieve a better standard of RISs and increase their usefulness to government by gradually raising the adequacy hurdle over time, as agencies have become more familiar with the processes. This can be gauged by the content, detail and quantification in RISs.
 - To test the extent to which minimum standards for RISs have been raised over the last three years, in 2001-02 the ORR re-assessed nine significant RISs from 1998-99. All nine were cleared as adequate by the ORR at the time. However, it was found that four of these RISs would not meet the required minimum standards for such RISs in 2001-02, because they provided insufficient information about the impacts on the community of options considered in the RISs.

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- In terms of quantification, analysis of a sample of Commonwealth RISs considered in the first half of 2001-02 found that 29 per cent employed quantitative measures. Moreover, the propensity to use quantification in RISs was related directly to the significance and impact of proposals. For example, 80 per cent of RISs assessing proposals with a significant impact across large segments of the community included quantitative measures.
 - Reporting on how the RIS process is leading to improved legislation and regulation is constrained by the confidentiality of Cabinet processes.
 - The ORR comments on all aspects of the RIS, but does not advocate particular policy solutions or outcomes. Rather, the ORR focuses on the content of the RIS to ensure that the Government's regulatory best practice requirements are met. In many cases, this leads to a more comprehensive assessment of the available options. In some instances, the RIS process has resulted in proposed recommendations being revised before the decision-making stage. This is consistent with the Government's best practice requirements for regulation, which encourage the examination and adoption of alternatives to prescriptive regulation, including self-regulation.
 - Compliance data by portfolio show that several departments and agencies which had been reported in previous years as performing below regulatory best practice have subsequently improved their internal processes during 2001-02, resulting in better regulatory practices and outcomes.
 - RISs tabled in the Parliament with Memoranda and Explanatory Statements have provided greater transparency regarding the rationale behind regulatory decisions, resulting in the Parliament being better informed. In addition, parliamentarians have drawn on published RISs in debate. For example, in 2001-02, there were 14 separate discussions about particular RISs in debates about regulatory policy issues (three times in the Senate, twice in the House of Representatives and nine times in the work of parliamentary committees).
 - Indicators of the usefulness of the ORR's regulation review activities in promoting public understanding of regulatory best practice issues are found in the use of its reports.
 - Printed copies of *Regulation and its Review 2000-01* were widely distributed and also accessed around 1900 times on the Commission's website in 2001-02. National press coverage occurred on two occasions in 2001-02. Extensive comments and feedback on matters addressed in the report were received from a range of stakeholders, including business groups, academics and international organisations. Furthermore, interest groups used information contained in this report, and information contained in individual RISs, in submissions to the Government and in their publications.

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- A further 400 copies of the second edition of *A Guide to Regulation* were distributed for use by policy and regulatory officers in Commonwealth departments, agencies, statutory authorities and boards, and other organisations and individuals interested in regulatory reform. In addition, the Guide was accessed around 2900 times on the ORR's website during 2001-02. Overall, the ORR website recorded almost 9000 hits in 2001-02, double the number recorded in 2000-01. During the year, a number of example RISs were made available on the website.
 - In its submission to the current review of the Trade Practices Act, the Australian Bankers' Association used the staff paper, 'Principles of Good Regulation', which was presented at the Commission's conference on achieving better regulation of services (Coghlan 2000).
 - The feature on regulation making in the March 2002 edition of *The Primary Report*, a newsletter circulated by the NSW Farmers' Association, drew on *A Guide to Regulation*, and the analysis of RIS compliance and developments in State jurisdictions reported in *Regulation and its Review 2000-01*.
 - Further indicators of usefulness are invitations for the Commission's Chairman to address the international conference hosted by the NSW Parliament on regulatory best practice in July 2001 (the paper presented is available on the Commission's website) and for the presentations, domestic and international, made by ORR staff during the year. The ORR's interaction with a range of international organisations, other national governments and other jurisdictions within Australia can generate a range of benefits. For example, the growing harmonisation of regulation-making processes and enhanced communication between officials providing advice about regulations can result in greater consistency in the design and application of regulations used in each jurisdiction. In turn, this can reduce unnecessary regulatory barriers to trade and commerce both internationally and within Australia.
 - Independent assessment of the usefulness of the regulation review activities undertaken by the ORR is found in:
 - the decision by the New Zealand Government to establish RIS systems based on those implemented by the Commonwealth Government; and
 - the review of regulation making systems undertaken by the Scrutiny of Acts and Regulations Committee (2002) of the Victorian Parliament, which recommended that features of ORR be used to strengthen and enhance the Victorian Office of Regulation Reform (box B.4).

Box B.4 An independent perspective on the ORR

In March 2000 the Regulation Review Subcommittee of the Scrutiny of Acts and Regulations Committee of the Victorian Parliament began an evaluation of the existing Victorian regulatory system and an analysis of regulatory systems in other Australian jurisdictions and in six jurisdictions in the United States. The Committee reported thus:

At the Commonwealth level, the Committee found that the Office of Regulation Review (the Commonwealth ORR) plays a key role of reviewing the RISs prepared by department and agency staff. To avoid any confusion as to whether or not a RIS needs to be prepared, the Commonwealth ORR has been given responsibility for making this decision, thus ensuring a more consistent approach across the Commonwealth Government. The Commonwealth ORR also has responsibility for reviewing RISs before they proceed to Cabinet. The Commonwealth ORR has fostered strong working relationships with department and agency staff, working alongside them to achieve the most appropriate outcome (whether regulatory or non-regulatory). The Committee notes that the Commonwealth ORR also provides regular and ongoing training to department and agency staff, thus ensuring that new and existing staff familiarise themselves and remain up-to-date with the best methods of preparing RISs. The Committee was particularly impressed with the work done by the Commonwealth ORR and would like to see the Victorian ORR similarly strengthen and enhance its role (Scrutiny of Acts and Regulations Committee 2002, p. 9).

Competitive neutrality complaints activities

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

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

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

The resources used in producing this output in 2001-02 are estimated to have been:

- 2.0 staff years; and
- \$0.3 million on an accrual basis.

Activities in 2001-02

Complaints activity

Five active complaints were carried forward from 2000-01 (although two of these related to the same matter and were combined into one complaint investigation). The CCNCO received two formal complaints during 2001-02 (table B.8).

With the agreement of the complainant, one of the formal complaints did not proceed to a report as the matter is being addressed following CCNCO discussions with the relevant government agency. The CCNCO, however, continues to follow the progress of that matter and retains the option to reactivate a complaint investigation if necessary. The other complaint investigations were completed in the 2001-02 financial year and the respective reports sent to the Government. Thus, at the end of the financial year, no formal investigations were outstanding. Details are provided in appendix D.

The CCNCO also conducted preliminary investigations into a query regarding whether a formal complaint and investigation was warranted with respect to the operation of ComCar. These investigations centred around whether the government activities involved met the 'business test' set out in the Commonwealth Competitive Neutrality Policy Statement. This preliminary investigation remained open at the end of the financial year. Details of these preliminary investigations are contained in appendix D.

Table B.8 Formal competitive neutrality complaints, 1998-99 to 2001-02

<i>Activity</i>	<i>1998-98</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>
Written complaints received	6	7	5	2
Action:				
New complaints formally investigated	2 ^a	4	5 ^b	1
Complaints investigated but suspended	–	1	–	–
Complaint investigations reactivated	–	–	1	–
Complaints investigated and resolved through negotiation	–	–	1	1
Complaints not investigated	4	2	–	–
Reports completed	1	4	–	5 ^b
Complaints on hand (30 June)	–	–	5 ^b	–

^a Two complaints related to the same matter: counter-terrorist first-response services provided by the Australian Protective Service. ^b Two complaints related to the same matter — the operation of airports on Commonwealth Government owned land (Sydney Basin airports and Essendon Airport Limited) — and were dealt with in one report.

Research

No formal research activities were conducted in 2001-02. However, during the year the CCNCO made a substantial contribution to a National Competition Council research paper describing the differences in competitive neutrality policies and complaint mechanisms in each jurisdiction.

Advice on the application and implementation of competitive neutrality

An important part of the CCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2001-02 the Office:

- provided advice around six times a week, on average, to agencies or in response to private sector queries over the telephone or in *ad hoc* meetings;
- contributed to the redrafting of the Commonwealth Government's publication *Commonwealth Competitive Neutrality: Guidelines to Managers*; and
- participated in the meeting of competitive neutrality policy and complaint agencies of the Commonwealth, State and Territory governments held in August 2001.

Quality indicators

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

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

Feedback from National Competition Council staff indicated that the contribution of the CCNCO to their research paper improved the accuracy and comprehensiveness of that paper.

Timeliness

The CCNCO has set itself the objective of reporting on complaint investigations within 90 days of accepting a formal complaint for investigation.

All investigations completed during 2001-02 exceeded the 90 day target for completion.

The complaint regarding ARRB Transport Research Limited was received on 30 October 2000 and was not completed until 31 August 2001. The time taken to compile information from all jurisdictions and obtain comments on the report from all State and Territory competitive neutrality agencies — necessary because the members of ARRB include representatives of the Commonwealth and each State and Territory government — accounted for the long completion time.

The related formal complaints dealing with Sydney Basin and Essendon airports were received in April and May 2001, and the final report on these matters was sent to the Government in November 2001. It was, however, completed in October, and its dispatch to the Government was delayed due to the federal election and the finalisation of the Government's ministerial arrangements.

The complaint reactivated in May 2001 at the request of Metra Information Limited was completed in September 2001. The complaint regarding DocImage Business Services was received in June 2001. Although the reports on these investigations were sent to the Government in November 2001, they were completed in September 2001, and their formal dispatch to Government was delayed due to the election and the finalisation of the Government's ministerial arrangements.

The complaint regarding OzJobs was received in November 2001 and completed in May 2002, following the receipt of a copy of a comprehensive internal review of Employment National's compliance with relevant government policies.

The formal complaint regarding AusInfo was received on 3 August 2001 and was resolved by negotiation with the government agencies concerned. Undertakings to address the heart of the matter were effectively in place by end November 2001. Accordingly, the CCNCO suspended further investigation, although it continues to monitor the situation.

Experience to date in conducting investigations has shown that the finalisation of complaint reports depends heavily on the supply of information from the complainant or from the Commonwealth or State Government agencies involved — the timing of which is mostly outside the control of the CCNCO. Accordingly, the

CCNCO is reviewing the retention of a 90 day target, while continuing to aim for the completion of its investigations in a timely manner.

Indicators of usefulness

The CCNCO 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 share procedural experiences. Feedback from those agencies indicates that the CCNCO makes a valuable contribution to the effective implementation of competitive neutrality policy.

The CCNCO received a range of informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments were received from government and private sector agencies on the usefulness of the CCNCO publications on *Cost Allocation and Pricing* and *Rate of Return Issues* in assisting their implementation of competitive neutrality policy. The approach to pricing adopted in the NSW Treasury (2001b) paper, *Guidelines for Pricing of User Charges*, acknowledges that some of its arguments and examples are based on the CCNCO pricing paper and ‘the significant contribution of that Office’. Although released in 1998, these research papers continue to be in demand — for example, each being accessed 300 to 400 times from the Commission’s website by external parties in 2001-02. In total, CCNCO publications on the website were accessed 5400 times during 2001-02 (up from around 3300 visits last year).

Supporting research and activities and statutory annual reporting

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

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

The resources used in producing this output in 2001-02 are estimated to have been:

- 63.2 staff years; and
- \$8.7 million on an accrual basis.

Activities in 2001-02

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

- research to meet the Commission's annual reporting obligations, comprising:
 - its annual report for 2000-01, tabled in Parliament in February 2002, which highlighted key policy messages arising from the Commission's inquiries into the regulation of Australia's economic infrastructure; and
 - two companion publications on regulatory developments in the year and trade and assistance issues, released in November and December 2001, respectively;
- two submissions to other review bodies;
- a volume of proceedings from a Health Policy Roundtable which was convened by the Commission and the Melbourne Institute;
- 19 research reports — comprising four Commission Research Papers, 12 Staff Research Papers, and three Staff Working Papers; and
- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

As outlined by the Commission in its *Research Program 2001-02*, proposals for research were considered against three broad themes (see chapter 2) and a set of guidelines emphasising:

- the absolute priority given to work commissioned by the Government and standing research responsibilities;
- research that supports the Commission's inquiry program, especially the development of expertise, information and analytical frameworks supporting a number of applications in the Commission's work;
- contributing to the stock of policy-relevant knowledge or making it more accessible and useful to policy-makers and the broader community; and
- research that is relevant to public policy issues, preferably with broad application and significance.

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations.

The research publications produced in the supporting research program in 2001-02 are listed in box B.5. The diversity of research projects underway at the end of the year is illustrated in box B.6.

Details of Commission research papers, staff papers and the 76 public presentations given by the Chairman, Commissioners and staff in the year are provided in appendix E.

Box B.5 Supporting research and annual reporting publications, 2001-02

Annual report suite of publications

Annual report 2000-01	Regulation and its review 2000-01
Trade & assistance review 2000-01	

Conference proceedings

Health Policy Roundtable

Submissions to other review bodies

Submission to DFAT on Australia's approach to forthcoming trade negotiations	Submission to the Environmental Management Systems Working Group
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Commission research papers

Constraints on private conservation of biodiversity	Harnessing private sector conservation of biodiversity
Structural adjustment — key policy issues	Offshore investment by Australian firms: survey evidence

Staff research papers

The role of technology in determining skilled employment: an economy-wide approach	Creating markets for biodiversity: a case study of Earth Sanctuaries Ltd
Self-employed contractors in Australia: incidence and characteristics	Information technology and Australia's productivity surge
Global gains from liberalising trade in telecommunications and financial services	Statistical analysis of the use and impact of government business programs
Greenhouse gas emissions and the productivity growth of electricity generators	The role of risk and cost-benefit analysis in quarantine decision making
Fixed-term employees in Australia: incidence and characteristics	Price effects of regulation: international air passenger transport, telecommunications and electricity supply
Australia's service sector: a study in diversity	Creating markets for ecosystem services

Staff working papers

Techniques for measuring efficiency in health services	Productivity growth in Australia: are we enjoying a miracle?
Living, labour and environmental standards and the WTO	

Box B.6 Supporting research projects underway at 30 June 2002

Skills and Australia's productivity surge #	Pastoral leases and non-pastoral land use #
Submission to the Review of the Trade Practices Act #	Potential effects of selected taxation provisions on the environment (Consultancy report) #
Adjustment issues – analysing structural change using dynamic MONASH #	Managed competition in health care: workshop proceedings
Modelling possible implications of GM crops on Australian Trade	The role of auction markets in allocating public resources
Analysis of export performance of firms	Assessing regional trading arrangements
The regional effects of electricity reform	Australia's productivity growth to 1999-2000
Social capital: exploring the concept and its policy relevance	Labour hire employment: extent and characteristics
An economic framework for collecting data in the health sector	Distributional impacts of changes in economic infrastructure in the 1990s
From permits to property	ICT and firm performance
Health policy and socio-economic status in Australia: improving decision support tools *	Unemployment: economic analysis and policy modelling *
Productivity in Australian banking	FTAP II database development – first phase

Published between July and October 2002. * Collaborative projects. Information on individual research projects is available from the Commission's website, www.pc.gov.au.

Quality indicators

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

Part of the research process for some projects involves consulting with key interested parties on the issues they view as important and in obtaining access to information. For example, during preparation of the Staff Research Paper, *Creating Markets for Ecosystem Services*, consultations were held with Environment Australia, New South Wales Government agencies (Cabinet Office, National Parks and Wildlife Service, Environment Protection Authority and State Forests NSW) and the Victorian Department of Natural Resources and Environment.

Research is monitored internally as it progresses and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences. For example, various phases of the research project on technology and skilled employment were 'road tested' at

university seminars, a Reserve Bank staff seminar, the Conference of Economists and the Australian Labour Market Workshop

Where appropriate, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees provided a range of constructive criticisms and were generally complimentary about the overall standard of the Commission research projects they reviewed. Responding to referees' comments enhanced the quality of final research outputs.

Another form of quality assurance and measure of relevance is the Commission's practice of bringing leading policy analysts, researchers and practitioners to roundtables, workshops and conferences which the Commission either conducts or co-sponsors under its supporting research program. For example, the Health Policy Roundtable, convened by the Commission and the Melbourne Institute in March 2002, brought together leading analysts and practitioners to explore some key policy issues facing the Australian health sector. The proceedings were published in June 2002.

Further evidence of the quality and standing of the Commission's supporting research program this year were:

- the appointment in July 2001 of Dr Philippa Dee, Assistant Commissioner of the Trade and Economic Studies Branch, to chair the Working Committee on Services of the international Global Trade Analysis Project, based at Purdue University in the United States;
- positive feedback from the organisers of separate OECD and WTO forums, held in March 2002, on the Commission's work quantifying the restrictions on trade in services, and the decision of the OECD Working Party of the Trade Committee to strengthen cooperative links with the Commission;
- in relation to the Commission's stream of research on productivity issues:
 - the publication of articles in the refereed journal, *Agenda* (Parham et al. 2001 and Parham 2002a);
 - publication of a paper on the role of firm exit and entry in Australian productivity growth by the OECD Directorate for Science, Technology and Industry, following its presentation at an OECD workshop in November 2001 (Parham 2002b); and
 - the invitation to present a paper on 'Productivity Gains from Policy Reforms, ICTs and Structural Transformation' to the International Association for Official Statistics conference, *Official Statistics and the New Economy*, held in London in August 2002, and involving some 340 delegates from around

the world, including economists and statisticians who lead world thinking in this area;

- the endorsement by the editor of SEA News of the Commission Research Paper, *Harnessing Private Sector Conservation of Biodiversity*, as the latest in an ‘excellent set of studies looking at policy aspects of biodiversity conservation’ published by the Commission. SEA News is an on-line newsletter on bioeconomic and social research on sustainability and economics in agriculture, funded by the Grains Research and Development Corporation; and
- acceptance of a conference paper by the organising committee of the 2nd World Congress of Environmental and Resource Economists that was based on the Staff Research Paper, *Greenhouse Gas Emissions and the Productivity Growth of Electricity Generators*.

Timeliness

Of the publications listed in box B.5, the annual report suite of publications, the health policy roundtable proceedings and Commission submissions to other review bodies, were completed to the schedule set by the Commission. Most of the other supporting research reports completed this year did not meet their originally projected completion times.

Servicing government-commissioned projects takes priority and the Commission allocates its resources accordingly. This means that lower priority research can take longer than anticipated, even though it is delivered within the original budget. Generally, research projects which are intermittently resourced are not strongly time sensitive. Redefinition of project scope and delays in obtaining data and referee comments were other common reasons for extended completion times for research projects in the past year. In some cases, initial estimates of the time needed to undertake the required research proved too ambitious. The more experimental or exploratory the project, the more difficult it is to schedule.

Indicators of usefulness

The Commission consults widely to ensure the relevance of its program of supporting research. Continuing what is now an annual practice, the Commission invited a range of government departments and agencies, peak national employer bodies, unions, and community welfare and environmental groups to meet in May and June 2002 to discuss current and future research. These discussions elicited strong support from these bodies for the Commission’s research outputs and more than 180 new research projects were suggested. The organisations represented,

suggested research topics and common themes are listed in the *Research Program 2002-03* (PC 2002e). Meetings with academics and consultations with Commissioners and staff also contribute to the identification of broad research areas that are consistent with public policy priorities. The Commission is planning to use its 2003 consultations on future research directions to obtain more systematic feedback on the quality and usefulness of projects arising from its supporting research program.

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 policy issues is demonstrated by a range of indicators covering the use made of Commission research, and invitations to discuss and disseminate its research findings in business and community forums. For example:

- The Commission Research Paper, *Offshore Investment by Australian Firms: Survey Evidence*, was undertaken in response to growing community and business concern that Australia was becoming a 'branch office' economy. However, tax and competition policy responses were being proposed to the Government in the absence of very little information on the extent of, or reasons for, relocation offshore. The Commission's findings that relatively few firms are relocating their headquarters offshore and are doing so primarily for commercial reasons, have been reported widely in the media and used, for example, by the Reserve Bank (Battellino 2002) and by the Australian Competition and Consumer Commission in its submission to the Review of the Trade Practices Act. The Business Council of Australia (2002) welcomed the report as a 'timely and useful contribution'.
- The information or policy analysis in a number of supporting research reports were drawn on in policy debate by Federal and State parliamentarians during the year. For example, the Minister for Communications, Information Technology and the Arts used the findings from the Staff Research Paper, *Information Technology and Australia's Productivity Surge* on a number of occasions in October and November 2001 when outlining the Government's information and communications technology policy. The Commission's productivity research also featured in federal parliamentary debate, as did the Staff Research Paper, *Statistical Analysis of the Use and Impact of Government Business Programs*. (Research reports referred to by parliamentary committees and the Parliamentary Library this year are listed in tables B.1 and B.2, respectively.)
- The Commission's stream of research on Australia's productivity performance and links to microeconomic reform is being used widely in policy debate. For example, in a paper assessing the implications of productivity trends for the State's Budget, the NSW Treasury (2002) cited six Commission research reports and presentations by its Chairman and staff. The Commission's productivity research was used by the Commonwealth Department of Industry, Tourism and

Resources (DITR 2002) and cited extensively in papers presented at the 31st Conference of Economists. It was also the subject of some 12 presentations to seminars and conferences during 2001-02 (table E.1).

- An example of how a range of outputs from the Commission's supporting research program is used by other Commonwealth agencies is provided by the Department of Industry, Tourism and Resources issues paper on the social impacts of the new economy (Lee et al. 2002). The paper drew on staff research papers analysing the distribution of the economic gains of the 1990s (Parham et al. 2000) and employment issues (de Laine et al. 2000; Murtough and Waite 2000a, 2002b); proceedings of a workshop on structural adjustment (PC 1999b); as well as the Commission's inquiry report on the impacts of competition policy (PC 1999c).
- Other examples of the usefulness of Commission research reports during the year include: the Commission's research on non-traditional employment that featured in the newsletter of the Association of Professional Engineers, Scientists, and Managers and was used by the Institute of Public Affairs; the dissemination of research on the impact of technology and other factors on skilled employment in a CEDA Bulletin (Jomini 2001); use by the Australian Retailers Association in its submission to the Review of the Trade Practices Act of the staff study of Australia's wholesale and retail sector (Johnston et al. 2000); and the invitation to give greater public exposure to the Commission's analysis and findings from its stream of research on the conservation of biodiversity by contributing an article, 'Environmental Problems For Sale — Who Bids?', to the online publication *Connections: Farm, Food and Resource Issues*, Autumn 2002 edition.
- In addition to summarising the contributions of key international speakers to the Health Policy Roundtable, *healthcover*, a journal with wide circulation in Australia's health industry, stated that the 'proceedings have been expertly compiled, cover a tremendous amount of territory and merit wide readership'.
- The requests for Commission data that are fielded from parliamentarians, government agencies and private organisations each year provide another indicator of usefulness. Such requests in the past year covered assistance estimates for industry, the Commission's listing of Australia's restrictions on financial services (needed for trade negotiation briefing) and productivity estimates (available on the Commission's website). The OECD has indicated that the Commission's database on services trade restrictions is relevant for the OECD's further work on services and could also serve as a model for its wider work on non-tariff barriers.

More generally, important means by which research projects contribute to public debate are through media coverage, the dissemination of reports to key interest groups and ready access to reports on the Commission's website. Most of the 2001-02 publications received media coverage upon their release, with the staff paper on the statistical analysis of government business programs attracting particular attention. In total, over 15 000 printed copies of research publications listed in box B.5 were made available for distribution by the Commission. To 30 June 2002, external parties had accessed the index pages of those reports on the Commission's website about 27 000 times. The most frequently accessed research reports in 2001-02 were its 1999 conference volume *Policy Implications of the Ageing of Australia's Population* (2800 times), *Constraints on Private Conservation of Biodiversity* (2400 times) and *Microeconomic Reforms and Australia's Productivity: Exploring the Links* (also around 2400 times). An increasing number of research reports arising from the Commission's supporting research program are also available for downloading from the Social Science Research Network.

C Commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides details of projects which the Government commissioned during the year and government responses to reports completed in 2001-02 and previous years. It also reports on commissioned projects received since 30 June 2002.

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; and
- government responses to reports from previous years.

Table C.1 summarises activity since the Commission's 2000-01 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
Inquiries					
25-8-98	Implementation of ESD by Commonwealth Departments and Agencies	AR 97-98	Report No. 5 signed 25-5-99	AR 99-00	page 159
5-11-99	Review of Legislation Regulating the Architectural Profession	AR 99-00	Report No. 13 signed 4-8-00	AR 00-01	page 158
14-2-00	Review of the <i>Prices Surveillance Act 1983</i>	AR 99-00	Report No. 14 signed 14-8-01	page 149	page 150
21-6-00	Telecommunications Competition Regulation	AR 99-00	Report No. 16 signed 21-9-01	page 136	page 137
17-8-00	Cost Recovery by Government Agencies	AR 99-00	Report No. 15 signed 16-8-01	page 138	page 140
11-10-00	Review of the National Access Regime	AR 00-01	Report No. 17 signed 28-9-01	page 151	page 152
21-12-00	Price Regulation of Airport Services	AR 00-01	Report No. 19 signed 23-1-02	page 143	page 144
7-2-01	Review of the <i>Superannuation Industry (Supervision) Act 1993</i> and Certain Other Superannuation Legislation	AR 00-01	Report No. 18 signed 10-12-01	page 140	page 142
16-7-01	Radiocommunications	AR 00-01	Report No. 22 signed 1-7-02	not yet released	na
3-9-01	Independent Review of the Job Network	AR 00-01	Report No. 21 signed 3-6-02	page 153	page 155
27-9-01	Citrus growing and processing	AR 00-01	Report No. 20 signed 30-4-02	page 147	page 149
2-10-01	Review of Section 2D of the <i>Trade Practices Act 1974</i> : Local Government Exemptions	AR 00-01	Report No. 23 signed 14-8-02	not yet released	na
20-2-02	Economic Regulation of Harbour Towage and Related services	page 130	Report No. 24 signed 20-8-02	not yet released	na
21-3-02	Review of Automotive Assistance	page 130	Report No. 25 signed 30-8-02	not yet released	na

Other commissioned projects

21-12-01	Impact of a Foot and Mouth Disease Outbreak on Australia	page 145	Report released 12-6-02	page 146	page 147
5-6-02	University Resourcing: Australia in an International Context	page 131	in progress	na	na
27-6-02	Removing Tariffs on Goods Originating from Least Developed Countries	page 156	Report released 28-10-02	page 157	page 158
5-7-02	General Practice Compliance Costs	page 132	in progress	na	na
26-7-02	Public Liability Claims Management	page 133	in progress	na	na
2-8-02	Evaluation of the Pharmaceuticals Industry Investment Program	page 133	in progress	na	na
13-8-02	Industries in the Great Barrier Reef Catchment and Measures to Address Declining Water Quality	page 135	in progress	na	na

na not applicable

Note: References are to previous annual reports (AR), inquiry and other commissioned studies of the Productivity Commission.



Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2001-02 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.

Economic regulation of harbour towage and related services

On 20 February 2002 the Parliamentary Secretary to the Treasurer referred harbour towage and related services to the Commission for inquiry and report within six months. The Commission is to report on:

- the impact of structural reforms on the provision of harbour towage and related services (for example, mooring lines), including the extent to which efficiency and productivity gains have been passed on to the users of these services;
- other measures that could be taken to increase the level of competition in harbour towage and related services, where desirable; and
- whether there is a continuing need for prices oversight of certain harbour towage services and, if so, the most effective forms of price oversight.

In making its recommendations, the Commission is to review the market structure in the provision of harbour towage and related services, including:

- the effectiveness of competition, including factors that might restrict competition;
- the extent to which costs structures differ between ports depending on the market structure in each port;
- pricing of harbour towage and related services, including structural and regulatory impediments to efficient pricing or service provision; and
- relevant regulations and legislation that may affect the efficient provision of harbour towage and related services.

Review of automotive assistance

On 21 March 2002 the Treasurer referred the post-2005 assistance arrangements for the automotive manufacturing sector to the Commission for inquiry and the provision of an information report within six months.

Drawing on the background provided with the terms of reference, in consultation with a cross section of the sector and bearing in mind the Government's desire for an internationally competitive and globally integrated automotive manufacturing sector and to improve the overall economic performance of the Australian economy, the Commission is to:

- evaluate key outcomes of the Automotive Competitiveness and Investment Scheme and reform of automotive tariffs, including an assessment of the impacts on each of the four categories of participants in the scheme;
- comment on the interdependence between the vehicle assemblers and component producers of the sector, and the sustainability of one segment if the number of firms in the other segment were to decrease;
- identify and analyse major impediments to the long term viability of the sector, including obstacles and restrictions on firms' export plans; competition for investment in the global industry; state and local taxes; industrial relations issues; and other hindrances on both the demand and supply sides of the economy;
- identify the strengths, weaknesses and opportunities for the sector;
- recognising the importance of scale economy, identify policy options that are consistent with the Government's international obligations, such as those under the WTO and APEC, which would assist the sector to achieve long term sustainability, including through enhanced global integration;
- analyse the short and long term implications of each policy option, including under present arrangements, for the structure, performance and competitiveness of the sector, employment, regional Australia, consumers, resource allocation and growth prospects generally;
- examine the impact on the sector of changes in road safety and environmental requirements; and
- report on progress in the trade liberalisation of the automotive sector in existing and prospective export markets for Australia.

University resourcing: Australia in an international context

On 5 June 2002 the Parliamentary Secretary to the Treasurer requested the Commission to undertake an international comparison of the resourcing of higher education institutions and the management of those resources and report within seven months. A draft report was requested by the end of September 2002.

The principal objective of the study is to collect information for Australia and other countries on university income by source, their assets and liabilities, the management of resources, constraints on their use, and accountability mechanisms for good financial management.

In undertaking the study, the Commission is to report on the following for a selection of broadly comparable institutions in Australia and other countries:

- the levels and sources of university income, including the share of costs between government and students, investment and consulting revenues, donations, endowments, revenues from intellectual property and industry support;
- the mechanisms for the distribution of funds to universities (including any indexation arrangements and funding models), and constraints imposed by governments and the private sector on the use of those funds (including through regulation, funding conditions and performance requirements);
- the expenditure of university income, including the broad distribution of funds within universities to teaching, research and other activities, and the distribution of those funds between employee remuneration and other purposes;
- the overall financial position of universities, including their assets and liabilities, and in particular the extent and form of any investments in commercial activities; and
- university financial management and audit processes, broader corporate governance arrangements, the external scrutiny of financial management (particularly by government) and general financial performance reporting requirements.

General practice compliance costs

On 5 July 2002 the Parliamentary Secretary to the Treasurer asked the Commission to undertake a research study examining the administrative and compliance costs associated with Commonwealth programs that impact on general practice and to report within seven months. In undertaking the study the Commission is to:

- analyse the nature and magnitude of the administrative and compliance costs for individual general practitioners and general practice as a whole resulting from Commonwealth policies and programs that impact on general practice and not on business generally; and
- having particular regard to the overall objectives of these Commonwealth programs and the benefits to consumers, report on findings as to worthwhile avenues to ameliorate these administrative and compliance costs.

Public liability claims management

On 26 July 2002 the Parliamentary Secretary to the Treasurer asked the Productivity Commission to undertake a research study into Australian insurers' claims management practices in the public liability class of insurance and benchmark them against world's best practice and report by 31 December 2002.

In undertaking this study, the Commission is to benchmark Australian insurers' claims management practices against world standards, having regard to:

- differences in legal processes between States and Territories in Australia;
- the impact of litigation on claims costs;
- the proportion of claims settled out of court and the factors determining which claims are settled out of court, and the size of these claims;
- whether insurers collate claims history and what criteria for collation are used;
- the time taken to finalise claims and factors determining this time;
- the incidence of claims as a proportion of policies written and changes in the average size of claims over time;
- the cost of claims management relative to the size of payouts, and the factors influencing this;
- any connection between claims management practices and the affordability, and the availability of public liability insurance; and
- recent substantive studies relevant to the study, including those by Trowbridge Consulting.

Evaluation of the Pharmaceuticals Industry Investment Program

On 2 August 2002 the Parliamentary Secretary to the Treasurer asked the Commission to undertake an evaluation of the Pharmaceuticals Industry Investment Program (PIIP) and report within five months. For the purposes of this study, the Commission's evaluation should:

- examine the appropriateness of PIIP by: determining whether there is economic justification for intervention in the pharmaceutical industry; and articulating and assessing the arguments for and against PIIP. In particular, the Commission should determine whether the economic rationale for counteracting price outcomes under the Pharmaceutical Benefits Scheme remains credible;
- examine the effectiveness of PIIP, by establishing whether it is:

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- meeting its policy objectives, including whether it is leveraging additional investment, production and research and development on top of what would have happened in the absence of the program, and
 - producing net benefits for the Australian economy as a whole;
 - examine the efficiency of the Program, taking into account all the costs involved with its administration and compliance; and
 - examine, if it is found that intervention in the pharmaceutical industry is justified, whether PIIP is an effective form of intervention, or whether alternative interventions would be more efficient and effective. In particular, if a continuing need to counteract price outcomes under the Pharmaceutical Benefits Scheme is established for post 2004, identify possible policy and program measures to do this, with an assessment of each option.

In making assessments in relation to the effectiveness of the program (and without limiting the methods the Commission may wish to determine these questions) the Commission is to:

- define the pharmaceuticals industry as all those who contribute to the discovery, development, manufacture and supply of pharmaceutical products and services in Australia, thus including the bio-medical sector;
- compare the economic activity of the program participants, both pre- and post-participation in the program, with the activity of non-participants across the Australian pharmaceutical industry, taking into account residual effects of the earlier Factor (f) Scheme;
- compare activity undertaken with that foreseen by both successful and unsuccessful PIIP applicants;
- where data are available, compare the activity of Australian subsidiaries of multinational firms with subsidiaries in other countries;
- consider the factors both internal and external to the program, that have enhanced or limited the program's effectiveness;
- provide an indication of the robustness of any conclusions, particularly given that data exist only for the first three years of the PIIP; and
- consider whether the program is meeting the current requirement that the Pharmaceutical Benefits Pricing Authority take into account the level of activity being undertaken by the company in Australia, including new investment, production, research and development (Factor (f)).

An interim report is required by November 2002, and the final report by January 2003.

Industries in the Great Barrier Reef catchment and measures to address declining water quality

On 13 August 2002 the Parliamentary Secretary to the Treasurer requested the Commission to undertake a research study examining the importance of different industries in the Great Barrier Reef catchment and the cost/benefits of on-ground actions to address declining water quality entering the Great Barrier Reef lagoon and report within six months. In undertaking the study the Commission is to:

- outline the economic and social importance of the main industries in the Great Barrier Reef lagoon and adjacent catchment areas at the local, regional, State and national level
 - the industries examined in the report should include aquaculture, beef, commercial fishing, horticulture, recreational fishing, sugar, tourism, mining and mineral processing, and
 - the economic indicators used in the report should enable a consistent comparison across industries as far as possible and include, but not be limited to, gross value of production, gross value added and employment;
- briefly discuss the current management approach by the main industries to activities that influence water quality entering the Great Barrier Reef lagoon;
- estimate the economic importance of the main industries in 2010 and 2020 based on available growth projection scenarios and assuming that current management approaches are continued; and
- analyse the likely costs and benefits at the local, regional, State and national level of policy options for addressing the issue of declining water quality entering the Great Barrier Reef lagoon.

The Commission is to provide an interim report focusing on the first three items in the reference within three months of commencing the study, and a final report covering all items in the reference within six months.

Commission reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 31 October 2002 and, where available, the government response.

Telecommunications competition regulation

Inquiry report No. 16 signed 21 September 2001, released 21 December 2001.

The Commission found that the fixed phone network remains important and is still in transition to competition. Consequently, there is a need for effective access to this network at prices that allow efficient competition, while not destroying the incentives for long-term investment. Furthermore, there are grounds for lighter regulation of other telecommunications services, such as mobile.

There are two key regulatory requirements aimed at increasing effective competition in telecommunication services:

- telecommunications-specific provisions for controlling anti-competitive conduct (Part XIB of the Trade Practices Act), with competition notices and a threshold test easier than Part IV, based on ‘effect or likely effect’; and
- a telecommunications-specific access regime (Part XIC) that provides for access to telecommunications infrastructure.

Part XIB may have both a preventative and remedial role in stemming anti-competitive behaviour. It is speedier and less costly to implement than Part IV. However, it has been used when alternatives would have been more appropriate. It lacks appropriate transparency and accountability.

The Commission recommended its retention conditional on the introduction of a better appeals mechanism intended to enhance procedural fairness and to test the validity of the ACCC’s actions. The Commission also recommended:

- that a competition notice should no longer constitute prima facie evidence of the matters set out in the notice;
- an increase the transparency of the arrangements; and
- that the ACCC develop guidelines about when Part XIB is preferred to Part XIC or other mechanisms for dealing with access-related issues.

The Commission recommended the retention of a telecommunications-specific access regime (Part XIC). However, the current arrangements have deficiencies. The declaration criteria in Part XIC are vague and provide excessive discretion to the regulator. The processes for determining conditions for access under Part XIC are slow and inefficient. This reflects the failure of undertakings as a mechanism and the predominance of lengthy bilateral arbitrations between conflicting parties.

For prospective new telecommunications facilities the risk of future declaration and regulated pricing under the current regime could prove to be a barrier to investment, with long-run consequences for consumers and for Australia’s overall economic

efficiency. There are also adverse interactions between certain social regulations and incentives for facilities competition and efficient access pricing.

The Commission recommended:

- the replacement of the existing declaration criteria with more objective and targeted requirements and the introduction of appeal and sunset provisions;
- the ability to determine prices jointly for a group of access seekers, rather than always using bilateral arbitration, combined with binding time limits for many regulatory processes and many small changes to access arrangements to make them more speedy, less costly and less subject to gaming; and
- a range of measures — such as legislated access pricing principles, elimination of the access deficit and provisions for limiting the application of declaration and regulated access pricing to new investments — that recognise the importance of investment in telecommunications facilities.

Government response

In endorsing the overall thrust of the report, the Government noted that the recommendations had the potential to significantly increase the level of competition and investment in the telecommunications market to the benefit of consumers and business. Moreover, Telstra and other infrastructure providers would be able to obtain greater upfront certainty from the industry regulator in regard to access prices and the terms and conditions that will apply to future investments (Alston 2002).

The Government endorsed the Commission's recommendation that the telecommunications-specific parts of the competition regime be retained. Also, in line with the Commission's recommendation to maintain incentives for investment, the Government will extend the existing legislation under Part XIC of the Trade Practices Act relating to exemptions and undertakings to include services that are not yet declared or supplied, so as to facilitate investment in new infrastructure. However, the Government has not maintained merit appeal processes as recommended by the Commission.

A number of other recommendations were accepted by the Government, including:

- providing additional information to the market;
- abolishing the Telecommunications Access Forum;
- repealing the requirement for Industry Development Plans;
- monitoring the timeliness of porting processes; and
- clarifying some minor technical legislative matters.

In addition, consistent with the proposals advanced by Commission in its draft report, the Government had already announced legislative changes in June 2001 to speed up dispute resolution processes under the telecommunications access regime (Alston 2001).

Cost recovery by government agencies

Inquiry report No. 15 signed 16 August 2001, released 14 March 2002.

The Commission found that the scale and scope of cost recovery by Commonwealth regulatory and information agencies have grown considerably in recent times. Cost recovery revenue grew by 24 per cent in real terms between 1995 and 2000, with more than \$3 billion raised in 1999-2000. Almost all agencies recover some of their costs, and the proportion of costs recovered is increasing.

In the Commission's assessment, well designed cost recovery arrangements can promote economic efficiency and equity by instilling cost consciousness among agencies and users and ensuring those who use regulated products or request additional information bear the costs.

By contrast, the Commission found that current cost recovery arrangements:

- had developed in an *ad hoc* way, in the absence of a clear Government policy on cost recovery;
- generally lack the attributes of good policy, such as transparency, accountability and review mechanisms;
- often create perverse financial incentives that are incompatible with overarching government objectives; and
- have many aspects that are inconsistent with sound economic principles.

These shortcomings mean that cost recovery can reduce competition and innovation in the economy and encourage regulatory creep and cost padding by agencies. It also has the potential to distort the allocation of resources and, ultimately, to reduce living standards.

The Commission recommended that the Government adopt a formal cost recovery policy for agencies undertaking regulatory and information activities. This policy would include the implementation of cost recovery Guidelines (drafts of these were proposed by the Commission) for reviewing significant existing arrangements and testing new proposals. Central to these Guidelines, an agency would complete a Cost Recovery Impact Statement or add a cost recovery segment to its Regulation Impact Statement. The preparation of a Cost Recovery Impact Statement or

Regulation Impact Statement in accordance with the Guidelines would enable all Commonwealth agencies to decide on the appropriateness of cost recovery for their activities, and the best approach to implementation. The fact that these statements would be assessed by an independent review body and made public would also mean that those paying would have greater confidence in the reasonableness of specific cost recovery arrangements.

Prerequisites to any cost recovery by Commonwealth agencies are that it be cost effective, consistent with policy objectives, and not unduly stifle competition and industry innovation. Where cost recovery is warranted, the Commission's draft Guidelines distinguish between regulatory agencies and information agencies.

For regulatory agencies, the prices of regulated products should incorporate all of the costs of bringing them to market, including the administrative costs of regulation.

Information agencies and the Government together should define a basic product set according to: public good characteristics, significant positive spillovers and other Government policy reasons. The basic product set should be funded from general taxation revenue. Additional information products should be classified into three broad categories and priced accordingly:

- dissemination of existing products at marginal cost;
- incremental products (which may involve additional data collection or compilation) at incremental (avoidable) cost; and
- commercial (contestable) products according to competitive neutrality principles.

For both regulatory and information agencies, operational principles for cost recovery include:

- using fees for service where possible;
- applying cost recovery to activities, not agencies;
- not using targets;
- not using cost recovery to finance other unrelated government objectives; and
- not using cost recovery to finance policy development, ministerial or parliamentary services, or meeting certain international obligations.

Design principles for cost recovery include:

- generally, avoiding cross-subsidies;
- ensuring transparency and accountability; and
- undertaking industry consultation.

Government response

In its interim response accompanying release of the report, the Government agreed with the Commission's recommendations that all cost recovery arrangements should have clear legal authority and that revenue from cost recovery should be transparently identified in budget documentation and agency reporting (Costello and Minchin 2002).

Furthermore, the Government agreed in principle to adopt a formal cost recovery policy and to review existing cost recovery arrangements. Both the policy and the review schedule, which will form part of the Government's final response to the report, are currently being prepared in consultation with all affected agencies.

Review of the *Superannuation Industry (Supervision) Act 1993* and certain other superannuation legislation

Inquiry report No. 18 signed 10 December 2001, released 16 April 2002.

The main legislative framework to help ensure that superannuation funds are well managed for members is provided by the *Superannuation Industry (Supervision) Act 1993*.

The Commission found that overall the Act provides an effective framework for the prudent management of fund members' interests. Most parts which restrict competition are warranted in order to confine the execution of certain tasks to suitably qualified professionals (for example, actuaries and auditors). However, a number of provisions of the Act impose significant compliance costs on fund members, trustees and others. Moreover, the act is voluminous, complex and in some respects overly prescriptive.

The Commission's preferred option was to amend the SIS Act (rather than make substantial changes) with a view to reducing these compliance costs by simplifying certain complex requirements, removing any unnecessary restriction of competition, and to enhance the effectiveness of capital adequacy and other requirements imposed on trustees. The Commission sought amendments to the SIS legislation to require that trustees of superannuation entities be licensed by the Australian Prudential Regulation Authority subject to specific conditions, including trustee capacity and the provision of a risk management strategy.

In order to reduce compliance costs, the Commission recommended that changes be made to:

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- simplify the age and employment requirements governing contributor status and compulsory cashing of benefits by treating those members aged between 65 and 70 in the same manner as those under 65;
 - remove the present requirement for trustees to verify the addresses of all lost members and the protection of lost member accounts with balances above \$1000;
 - make available superannuation benefits of bona fide non-resident employees below a specified limit to non-residents on permanent departure from Australia with amounts above that limit subject to a taxation adjustment to offset Australian tax concessions accorded to superannuation;
 - simplify and remove any unnecessary duplication in the requirements for the contents of risk management statements related to investment in derivatives; and
 - simplify the requirements for actuarial statements.

The Commission considered that there should be no expansion of the current list of exempt public sector superannuation schemes. Further, governments should give consideration to the feasibility of closing exempt schemes which are open to new members and electing to make any new schemes subject to the SIS legislation.

Other pieces of legislation were also reviewed. The *Superannuation (Resolution of Complaints) Act 1993* provides for the establishment and operation of a statutory alternative disputes resolution body, the Superannuation Complaints Tribunal, to resolve complaints that cannot be settled between a superannuation fund member and trustee, insurer or other provider. The Commission concluded that, on balance, the Tribunal's legislation should be replaced by a more flexible and cost-effective requirement that funds belong to an approved industry-based dispute resolution scheme. In the event that the Act is not repealed, the Commission suggested a number of changes:

- that trustees provide members with information about the categories of complaints that are excluded by legislation from consideration by the Tribunal;
- to allow the Tribunal to implement an incentive-based system of charging superannuation entities for its resolution of complaints;
- to give the Tribunal discretion to extend beyond one year the time limit for its decision on complaints against trustees' actions on disability payments; and
- to give the Tribunal's Chairman discretion to name parties to complaints received by it.

The *Superannuation (Financial Assistance Funding) Levy Act 1993* provides for the imposition of a levy to fund financial assistance to a superannuation fund that

suffers losses as a result of fraud or theft. Part 23 of the SIS Act provides for assistance to be given where the Minister considers it to be in the public interest. The Commission recommended that, in the interests of transparency, the Minister table in Parliament the reasons for a decision to grant assistance and the related advice received from the Australian Prudential Regulation Authority.

The *Superannuation (Self Managed Superannuation Funds) Supervisory Levy Imposition Act 1991* and the *Superannuation (Self Managed Superannuation Funds) Taxation Act 1987* impose a levy on self-managed superannuation funds for their regulatory supervision by the Australian Taxation Office. The Commission considered that the Taxation Office should publish the component costs of its regulatory supervision of self-managed funds to ensure public accountability.

The Commission also recommended that the *Occupational Superannuation Standards Regulations Application Act 1992* be repealed as it was no longer relevant. The purpose of this Act was to overcome uncertainty at the time about the validity of regulations made under previous legislation (that was the forerunner to the SIS Act) in relation to the Superannuation Guarantee arrangements.

Government response

The Minister for Revenue and Assistant Treasurer in announcing the Government's response agreed that the legislation should be amended to simplify certain complex requirements which impose significant compliance costs (Coonan 2002a). The Government did not agree with the recommendation to replace the Superannuation Complaints Tribunal.

The Minister noted that a number of the recommendations had been the subject of the Government's election commitments. This included allowing temporary residents access to their superannuation benefits upon permanent departure from Australia and the proposed simplification of the maximum age for contributions to superannuation.

The Government intended to respond to the remaining Commission recommendations following the completion of a number of other examinations of superannuation, including by the Superannuation Working Group. Its report dealt with a number of issues including the licensing of trustees, capital adequacy arrangements, operational and governance standards, risk management and financial assistance for loss from theft and fraud under Part 23 of the SIS Act.

In its response to the Superannuation Working Group's report, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement (Coonan 2002b).

Price regulation of airport services

Inquiry report No. 19 signed 23 January 2002, released 13 May 2002.

This inquiry was to report on the appropriate form of price regulation, if any, to apply to airports in Australia. In particular, the inquiry focused on future price regulation of Australia's 12 largest airports which, except for Sydney Airport, were privatised in the late 1990s and then subject to price caps for five years.

Following detailed analysis of the demand and supply characteristics of airport markets, the Commission found that four airports — Sydney, Melbourne, Brisbane and Perth — have substantial market power.

Adelaide and, to a lesser extent, Canberra and Darwin, have moderate market power. Any market power of other airports was considered not to warrant special regulation.

The airport services where market power is strongest include facilities for aircraft movements (runways, taxiways, aprons) and 'front-door' vehicle access. However, the scope for airports with market power to use (or abuse) that power is constrained by commercial pressures and opportunities, particularly the substantial 'non-aeronautical' income to be had from promoting airline passenger traffic.

In these circumstances, because of the risks and potential costs of strict price controls relative to more light-handed price regulation, such controls were judged not to be required even at the four airports with substantial market power.

The uncertain outlook for the aviation market since September 2001 also called for a more flexible approach, as the Government recognised in removing price caps from other key airports, including Adelaide, Canberra and Darwin, in October 2001, and allowing one-off price increases above the price caps at Melbourne, Brisbane and Perth airports.

The Commission's preferred approach was to put in place a light-handed regulatory regime (additional to general competition law) in which all seven airports assessed as having some market power would no longer be subject to price caps and price notification but would have their pricing and other behaviour monitored for a 'probationary' five-year period.

It was considered that monitoring would promote more productive commercial relationships between airports and airlines, while providing the discipline of the possible reintroduction of stronger regulation after five years.

An independent and public review towards the end of the five years would assess the need for continued regulation (if any) of these airports. Other airports should be included in the review where there was prima facie evidence of persistent misuse of market power.

If the Government nevertheless were to opt for continuation of a stricter form of price regulation, the Commission preferred CPI-X price caps because they can offer incentives for efficient airport operation.

- Unlike the existing price caps, however, any new price caps should be explicitly based on a 'dual till' (that is, revenues from non-aeronautical activities such as retailing should not be applied to reduce allowable aeronautical prices) and factor in anticipated investment.
- Conventional price caps would be confined to Melbourne, Brisbane and Perth airports. For a capacity-constrained Sydney Airport, arrangements should not be such as to force prices down.

Under both options, the National Access Regime and anti-competitive conduct provisions of the Trade Practices Act would apply to all airports.

The Commission also recommended that quality monitoring of regulated services should continue at all airports subject to price regulation. However, neither price caps nor price monitoring should be reintroduced for Alice Springs, Coolangatta, Hobart, Launceston and Townsville airports. The Airports Act should be amended so that these airports are no longer designated as 'core regulated' airports

The Commission argued that whatever the regulatory framework decided for Sydney Airport, that policy, in particular the pricing and investment provisions, should be clearly and publicly articulated to bidders so that the sale price could adequately reflect it.

Government response

The Government responded positively to all the recommendations in the report.

It accepted the major recommendation that price caps and notification be replaced by mandatory price monitoring arrangements for Sydney, Melbourne Brisbane and Perth airports and that price monitoring arrangements (introduced in October 2001 to replace price caps) be continued at Adelaide, Canberra and Darwin airports for a further five years (Anderson and Costello 2002).

Similarly, the Government agreed that quality of service monitoring for regulated services should continue and that neither price monitoring nor price caps should be

reintroduced to Alice Springs, Coolangatta, Hobart, Launceston and Townsville airports.

It also supported the encouragement and assistance of commercial agreements on aeronautical services and aeronautical related services under price-monitoring arrangements.

While supporting the need for an independent and public review of the price regulation of airports at the end of the five-year period, the Government reserved the right to bring forward any review were there was a strong indication that an airport had unjustifiably increased its prices.

Furthermore, the Government agreed that all airports should be subject to the generic provisions of the national access regime rather than an airport-specific access regime. It also agreed that prior to the implementation of the chosen regulatory approach, airports and airlines should be consulted to reduce any uncertainty and disputation. This would also enable bidders for Sydney Airport to have a clear picture of the regulatory framework.

Impact of a foot and mouth disease outbreak on Australia

Commissioned research report, released 12 June 2002.

On 21 December 2001 the Parliamentary Secretary to the Treasurer asked the Commission to assess the impact of an outbreak of foot and mouth disease (FMD) on the agricultural sector, the national economy and rural and regional Australia, and to report within six months.

The Commission was requested to consider three scenarios:

1. a small single point outbreak;
2. a medium sized outbreak which impacted on two States and which took up to six months to contain and eradicate; or
3. a large multi-point outbreak which took up to 12 months to control and eradicate.

In doing so, the Commission was asked to evaluate the full economic, social and environmental impact of an outbreak (under each of the above scenarios), including on the agricultural sector, regional Australia, and the national economy, and in any other collateral manner.

For scenarios (2) and (3) above, consideration was to be given to any changes to the impact of an outbreak if:

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- a vaccination policy was in place; or
 - FMD-free geographic zones were established.

Commission report

The Commission found that a range of measures are in place to prevent an FMD outbreak in Australia. All governments and the livestock industries are also reviewing their preparedness to deal with an outbreak should it occur. Specifically, the report found:

- An FMD outbreak would result in the immediate closure of many of Australia's major export markets for livestock products. Key beef and lamb markets would not reopen until at least three months after the disease was eradicated, and it could then take some time to rebuild those markets.
- The Commission estimated that the cumulative losses of export revenue would range from over \$3 billion for a short outbreak to over \$9 billion for a 12 month outbreak. The majority of losses would be in the beef industry.
- The resulting oversupply of meat on the domestic market would result in a large drop in price in Australia and a further decline in industry revenue.
- The cumulative decline in revenue from domestic sales was estimated to be over \$2 billion for a short outbreak to over \$3 billion for an outbreak that took 12 months to control.
- Control and compensation costs were estimated to be around \$30 million for a short outbreak rising to \$450 million for a 12 month outbreak.
- There would be significant flow-on losses to the economy, including to many businesses reliant on livestock industry revenue in rural and regional Australia.
- Overall, the cumulative loss to the national economy was estimated to be around \$2 billion to \$3 billion in Gross Domestic Product for a short outbreak, rising to between \$8 billion and \$13 billion for a 12 month outbreak.
- All jurisdictions would suffer losses but, because of the size of its beef industry, Queensland would be particularly affected.
- Establishing FMD-free trade zones could reduce the costs of an outbreak to Australia by up to two-thirds.
- Emergency ring vaccination of livestock is likely to be an appropriate policy option whenever it could materially reduce the length of an outbreak.
- There would be significant social costs associated with any FMD outbreak. In addition to the disruption and distress caused by the control and eradication measures in the infected areas, the widespread financial losses arising from the

trade costs of an outbreak would result in significant social costs to individuals and communities throughout rural Australia.

- Environmental costs, which stem mainly from the disposal of animal carcasses, could be minimised with good preparation and site selection.

Government response

The Acting Minister for Agriculture, Fisheries and Forestry noted that the report emphasised how significant and long-term the effects of a foot and mouth disease outbreak could be to the Australian economy, and in particular to rural and regional areas.

The Minister said that the report had also thrown some light on a number of important policy issues, such as the circumstances when zoning and vaccination might be appropriate. Also, the Minister noted that ‘the report gave some real perspective’ as background to a planned simulation of an FMD outbreak (McDonald 2002).

Citrus growing and processing

Inquiry report No. 20 signed 30 April 2002, released 18 June 2002.

The Commission found that the citrus growing and processing industry has been expanding while experiencing significant change.

- Demand for fresh fruit and fresh juice has increased strongly. These products absorb 85 per cent of total orange production.
- The industry has become more export-oriented, with exports now representing one-quarter of total citrus production and almost half of the total value of production.

At the same time, a substantial increase in low cost, high quality frozen concentrate orange juice from Brazil has resulted in reduced returns and financial problems for some local growers. Financial performance and competitiveness within the industry varies.

- Growers who have adapted well to market developments have had the foresight and ability to invest in varieties of citrus or other horticultural products which are in demand.
- Those who have found it more difficult to adapt have typically been those with significant proportions of oranges processed into concentrate. Many have small orchards and limited resources.

Like many other agricultural enterprises, citrus growers face a number of risks — in particular, fluctuations in their income and lengthy pay-back periods on investment. Certain characteristics of the industry, including the prevalence of non-citrus production on many farms, off-farm income and the increasing use of medium-term supply contracts, provide scope to manage many of these risks.

The citrus industry's growth is impeded by some regulatory factors — such as high trade barriers in some overseas markets and costly labour market arrangements. The benefits of the sole importer arrangement in the United States tend to be overstated, because of the influence of other factors on returns from that market.

- It is important that reviews of this and similar export control arrangements be conducted in a genuinely independent and transparent manner.

The citrus industry has access to a range of general government support programs to improve its performance and facilitate adjustment to economic change. The Commission considered that additional industry-specific assistance is not justified:

- much of the industry is already adapting successfully to change; and
- the diverse nature and performance of farm households which grow citrus mean that such assistance would not target low-income problems efficiently or equitably.

For these reasons and because a tariff increase would not provide much assistance to growers in difficulty, the Commission also considered that a safeguards investigation is not warranted.

The Commission specifically recommended:

- The Government should use the opportunity provided by the current multilateral trade negotiations in the World Trade Organization to seek further reductions in overseas trade barriers faced by citrus producers.
- Biosecurity Australia and the Horticultural Industry Market Access Committee should review the effectiveness of the current processes for setting priorities for market access discussions, in order to ensure that the identified priorities reflect commercial opportunities.
- Biosecurity Australia and the Horticultural Industry Market Access Committee should clarify their roles and responsibilities for conveying information to interested parties on the status of current market access discussions, including their anticipated completion dates.
- Export controls should only be used in those markets where independent reviews can demonstrate, on the basis of clear criteria, that such powers generate benefits which exceed the costs and which cannot be achieved without the powers.

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- Future reviews of export control arrangements should be conducted in an independent and transparent manner, including effective consultation with all interested parties. Assessment criteria and the results of the review should be publicly available, together with the reasons for recommendations.
 - In making and reviewing superannuation, workers compensation and immigration policies, Commonwealth, State and Territory Governments should take into account the potential compliance costs for citrus and other horticultural producers. For example, periodic increases in the Superannuation Guarantee threshold (below which payments to employees are exempt) in line with wage rises would maintain the real value of the threshold while easing compliance costs for citrus growers.

Government response

The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. The Commission's recommendations would be carefully considered before a formal response was provided (Truss 2002a).

Review of the *Prices Surveillance Act 1983*

Inquiry report No. 14 signed 14 August 2001, released 20 August 2002.

The Commission found that the economic environment has changed significantly since the Prices Surveillance Act was introduced in 1983. Prices oversight is seen now as part of competition policy, focusing on pricing by firms with substantial market power in important markets, rather than as part of a prices and incomes policy.

In markets where competition is not strong, regulators attempt to emulate the efficient outcomes they believe would occur in more competitive markets. Yet this is a complex task requiring information that typically is not available. Hence, intervention may well result in prices that are more inefficient than would occur in the unregulated market, doing more harm than good to consumers and to the economy generally. Because of these risks, prices oversight is likely to be warranted only when there is substantial market power and when other pro-competitive options are not available.

The review found that the Prices Surveillance Act has substantial deficiencies. It does not have clearly defined objectives. Under the Act, it is easy to implement price notification — an indirect form of price control — without sufficient

investigation. Moreover, inquiries under the Act are not required to consider relevant policy options and there is insufficient guidance as to the role of price monitoring.

The Commission recommended that:

- The *Prices Surveillance Act 1983* should be repealed and a new part inserted in the *Trade Practices Act 1974* to provide for inquiries and prices monitoring in nationally significant markets where there may be concerns about monopolistic pricing.

Specifically, the new part of the Trade Practices Act would:

- include an objects clause stating the objectives for the inquiry and monitoring part of the Act;
- provide for public inquiries into monopolistic pricing;
- provide for monitoring; and
- not provide for price control to be administratively implemented. In the event that an inquiry recommended some form of price control, it would need to be implemented through industry-specific legislation.

Government response

While the Government agreed that the *Prices Surveillance Act 1983* be repealed and a new part inserted into the *Trade Practices Act 1974*, it has decided to retain the existing price restriction provisions and include them in the new part of the Trade Practices Act (Costello 2002a).

The Government agreed that the new part of the Trade Practices Act should include an objects clause and that it provide for public inquiries into monopolistic pricing. However, it did not support the detail recommended in regard to the inquiry process.

It did not support legislating that the Minister should be satisfied about the significance of a pricing issue before initiating an inquiry or that the Minister specify the duration of the inquiry. Also, the Government would retain its discretion as to specifying the terms of reference for any inquiry and as to who would conduct the inquiry and did not see a case to allow the Minister to only initiate monitoring following an inquiry (or close substitute).

Review of the national access regime

Inquiry report No. 17 signed 28 September 2001, released 17 September 2002.

This inquiry examined the operation of the national access regime for ‘essential’ infrastructure services. Under the so called Part IIIA regime, businesses can seek access to these services on ‘reasonable’ terms and conditions in cases where replicating the infrastructure concerned would not be economically feasible. Part IIIA operates in tandem with a range of industry specific access regimes.

Without such regulation, service providers might deny access to their facilities or charge monopoly prices for their services. This could be costly for the community. Given these potential costs, the limited experience in Australia with access regimes and ongoing structural change in a number of infrastructure sectors, the Commission concluded that retention of a national access regime was warranted.

However, it went on to argue that some significant changes to the current arrangements were required and, in particular, to give greater emphasis to ensuring that there are appropriate incentives to invest in essential infrastructure. To this end, the Commission proposed that new measures be incorporated in the national access regime to facilitate efficient investment. These included:

- *Provision for binding rulings.* This would allow investors in a proposed essential facility that is unlikely to enjoy substantial market power to seek a ruling from the Minister (on the recommendation of the NCC) that the Part IIIA declaration criteria are not met. Bringing forward a (negative) coverage determination would reduce regulatory risk and obviate the need for investors to adopt more expensive risk reduction strategies. For some marginal projects, this reduction in cost could be the deciding factor in allowing worthwhile investment to proceed.
- *Exemptions for government-sponsored infrastructure projects awarded by competitive tender.* Where the right to construct and operate an essential facility is determined on the basis of the most reasonable access terms and conditions offered in a competitive tender, the intent of access regulation will have been achieved. It is therefore unnecessary to expose such projects to access regulation.
- *Consideration of further more widely applicable measures by the Council of Australian Governments.* The preceding two measures would only be relevant in a limited range of circumstances. Accordingly, the Commission proposed that a process be implemented to refine generally applicable mechanisms that would help ensure that efficient investment was not deterred. It indicated that measures for consideration should include fixed-term access holidays and provision for a

‘truncation’ premium to be added to the cost of capital that has been agreed to by the project proponent and the regulator prior to the investment.

In addition, the Commission proposed a range of modifications to the architecture of Part IIIA to ensure that access regulation is better targeted and more workable. These included:

- inserting an objects clause and pricing principles to guide regulators, service providers and access seekers and to discourage unwarranted divergence across industry-specific regimes;
- strengthening the coverage criteria to ensure that mandated access would only occur where it would promote a substantial increase in competition. This would guard against the inappropriate declaration of essential facilities;
- aligning the coverage criteria applying across the regime’s different access routes to reduce the scope for inconsistent determinations;
- enhancing the prospects for negotiated outcomes or effective arbitrations, through modifications to the negotiate-arbitrate framework; and
- improving administrative efficiency and transparency to address the currently cumbersome and protracted decision making arrangements.

Government response

In an interim response, the Government endorsed the thrust of the majority of the Commission’s recommendations (Costello 2002b).

Amongst other things, the Government agreed that:

- decision makers should have regard to a specific objects clause and pricing principles in Part IIIA determinations;
- there is a need to strengthen the declaration criteria to avoid the possibility of inappropriate declarations;
- the ACCC, when arbitrating a dispute for a declared service, or assessing a proposed undertaking, should justify the introduction of non-efficiency considerations;
- Part IIIA should be amended to make it explicit that the ACCC cannot accept an undertaking for a service covered by a certified regime;
- there was a case for aligning clause 6 of the Competition Principles Agreement and Part IIIA, particularly in regard to pricing principles;
- there should be provision for full merit review of ACCC decisions on undertaking applications;

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- to the introduction of non-binding time limits for various steps in the Part IIIA processes and post-arbitration reports;
 - to the provision of immunity from Part IIIA for government sponsored infrastructure projects awarded by a competitive tender;
 - a legislative provision should be provided for public input on declaration, certification and undertaking applications; and
 - the NCC should report annually on the operation and effects of the revised Part IIIA arrangements; and
 - an independent review of the revised Part IIIA arrangements should be conducted five years after the first group of changes is introduced.

In some cases, the Government indicated that it intended to modify or augment the detail of the Commission's specific recommendations. For example, the Government has made amendments and additions in respect of the Part IIIA objects clause and the 'substantiality test' in the first of the declaration criteria. In relation to the Part IIIA pricing principles, the Government agreed in the broad, but made a number of modifications.

Also, while emphasising that changes to Part IIIA are required to encourage efficient investment in essential infrastructure, the Government has indicated that the practicality and/or implementation of binding rulings and mechanisms, such as access holidays and truncation premiums, should be assessed in the context of the review of industry-specific access regimes, such as the Gas Code.

Given that some of the changes endorsed by the Government require changes to clause 6 of the Competition Principles Agreement, to which all State and Territory governments are participants, a final response will be released following consultations with State and Territory governments.

Independent review of the Job Network

Inquiry report No. 21 signed 3 June 2002, released 19 September 2002.

The Job Network is a 'managed' market for the provision of subsidised employment services to Australia's unemployed, especially targeted at the more disadvantaged. It represents one of the first comprehensive attempts internationally to apply market mechanisms to the provision of subsidised employment services. This quasi-market tries to mimic many of the features of normal markets by providing scope for competition, variable prices, some degree of choice for job seekers, flexibility in the way services are delivered and rewards for good providers.

The Commission found that the Job Network's purchaser-provider model was a suitable policy framework for the delivery of active labour market programs.

The effects of Job Network programs on *net* employment outcomes were small, similar to past programs. However, the total costs were much less than previous programs. Competition between providers and the use of outcome payments had created incentives for improved efficiency and better outcomes. Job seekers had some choice of provider, and employers were more satisfied.

However, not all aspects of the Job Network were working well and incremental reform was warranted:

- Many disadvantaged job seekers received little assistance while on 'Intensive' Assistance — so-called 'parking'. There needed to be better targeting of the needs of job seekers, changes to payment systems to providers and greater options for re-referring job seekers to other programs. The Active Participation Model proposed for the third contract reduces parking problems, though other steps may help further.
- Many job seekers did not choose their Job Network provider, had few choices over the services given to them and, in the proposed changes envisaged for the next contract, would be locked into a single provider, potentially until retirement. There needed to be better information provided to job seekers about the Job Network and more options for job seekers to choose providers and pathways.
- Competitive tendering was complex and expensive for providers and disruptive to services. Accordingly, licensing of providers should be adopted, ultimately with free entry to the Job Network by accredited agencies, subject to ongoing assessment of quality. Prices should be set administratively as quality of service cannot be assessed adequately *ex ante*.
- Fixed caseloads frustrate growth of the best agencies and remove incentives to develop and promote their superior performance. Quotas on caseloads should be liberalised and eventually abandoned.
- The Department of Employment and Workplace Relations was imposing too many compliance burdens on, and providing excessive direction to, Job Network providers — undermining the desirable flexibility of the system. A risk management approach to contract monitoring and compliance should be adopted.
- Some minor programs were either poorly targeted or ineffective. Subsidies should be removed from Project Contracting, and the Self Employment Development program should be terminated.

The Commission's recommendations are unlikely to decrease funding for unemployed job seekers, and should improve the effectiveness of services for them, providing them with more options, improved choice and greater empowerment.

The recently proposed Active Participation Model for the Job Network resolves some, but not all of the problems of the existing Job Network. Overall, it is a positive step.

Government response

In its response, the Government welcomed the review as a significant and authoritative examination of the Job Network and supported the overall thrust of the Commission's recommendations. While it was not prepared to support a number of recommendations at the present time, the Government would give further consideration to these recommendations as the evolution of employment services continued (Brough and Campbell 2002).

In particular, the Government supported the recommendation that the purchaser-provider model for employment services be maintained. It also supported the following recommendations:

- the Department of Employment and Workplace Relations collect further information on compliance effects, the longer term effects of participation on a job seeker's employment history and the quality or suitability of the jobs obtained;
- continuation of a generalised job matching function that provides greater incentive for placing more disadvantaged job seekers;
- retention of Job Search Training and the New Enterprise Incentive Scheme;
- adjusting activity rest requirements to take account of the circumstances of individual job seekers;
- provision of information to job seekers about the Job Network and the associated referral system be enhanced;
- the Job Seeker Classification Instrument not be used to meet Job Network providers' capacity objectives;
- charges only be imposed on Job Network providers for re-assessment of job seekers' special needs if Centrelink or an independent assessment organisation establishes that the clients do not have special needs;
- the Department of Employment and Workplace Relations develop assessment methods that better identify job seekers who can benefit from repeated use of the intensive phases of assistance; and

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- the star rating model be retained as a basis for assessing the performance of Job Network providers, but subject to continual refinement.

The Government agreed in part or in principle with a number of other recommendations, including making available de-confidentialised data on Job Network programs for independent scrutiny by other researchers and the termination of the Self Employment Development program.

The Government also noted a number of recommendations, and will give consideration to their implementation in the future. These included removal of interim educational outcomes for payment, recognition of short-term jobs as outcomes, the introduction of licensing and the relaxation of case load limits.

However, the Government did not support at the present time the introduction of voluntary participation in Intensive Assistance to job seekers, widening the ability of job seekers to exercise greater choice of their Job Network providers while in assistance, the removal of subsidies for Project Harvesting, the ability of Job Network providers to choose whether they offer specialist, generalist or any particular combination of services and the possible establishment of an independent agency to oversight the Job Network.

Removing tariffs on goods originating from least developed countries

Commissioned research report released 28 October 2002.

On 27 June 2002 the Parliamentary Secretary to the Treasurer requested the Commission to undertake a technical study examining the effects of a proposal to remove tariffs on goods that originate in least developed countries (LDCs), and to report within two months.

The Commission was to examine:

- the responsiveness of exporters in least developed countries to the proposed removal of tariffs in Australia;
- the likely effects of the proposal on:
 - other developing countries, including members of the South Pacific Regional Trade and Economic Co-operation Agreement, which enjoy duty-free access to the Australian market through this and other measures;
 - Australian manufacturers of goods directly in competition with imports from least developed countries; and
 - Australian consumers and the economy generally.

Commission report

The Commission's analysis, which was one input to the Government's decision-making process, suggested that removing tariffs on imports from LDCs could significantly boost imports from those countries, primarily clothing, and would have little impact on prices, incomes or jobs in Australia. Key points of the study were:

- Australia's imports from LDCs in 2001-02 amounted to A\$242 million (0.2 per cent of all imports). Most were from Bangladesh, Burma (mainly clothing), Yemen (mainly petroleum products), and Samoa (mainly automotive components).
- Imports originating from LDCs and other developing countries benefit from a variety of preferential arrangements. These include the Australian System of Tariff Preferences, which provides for a 5 per cent reduction on the general tariff, and the South Pacific Regional Trade and Economic Co-operation Agreement, which provides for duty-free entry into Australia for qualifying imports.
- Given the current patterns of trade and tariffs, complete removal of tariffs on imports from LDCs would primarily affect imports of clothing.
- The overall effects are likely to be small because Australia's existing trade with LDCs is small and, to a lesser extent, tariffs affecting these imports have little effect on the final prices paid by consumers.
- Projected trade effects include:
 - Continuous changes in the Australian clothing industry make it able to play an increasing role in design and distribution, and a reduced role in production. As a result, employment is projected to fall by fewer than 100 jobs, mainly production outworkers. The Australian clothing industry would benefit from slightly reduced costs of semi-finished inputs.
 - The effects on the rest of the Australian economy would be negligible. Consumer prices of clothing will fall by less than 0.05 per cent.
- Tariff revenues would fall by a maximum of A\$2.5 million in the short term. However, planned tariff reductions in 2005 mean that forgone revenue will be smaller past that date.
- The benefits to LDCs of the proposed preferential tariff reduction depend on their ability to provide an economic, social and political environment that enables the investments required for the projected supply responses to occur.

Government response

On 25 October 2002 the Prime Minister announced that from 1 July 2003, Australia would grant tariff and quota free access for 50 of the world's poorest countries, including East Timor (Howard 2002). The Prime Minister noted that the initiative demonstrated Australia's commitment to opening markets to the poorest countries to help them trade their way out of poverty, and would signal to the rest of the world that Australia was serious about getting the most disadvantaged to share the benefits of trade liberalisation.

Government responses to Commission reports from previous years

Review of legislation regulating the architectural profession

Inquiry report No. 13 signed 4 August 2000, released 16 November 2000.

On releasing the Commission's report in November 2000, the Treasurer noted that, as the Commonwealth does not have any legislation regulating architects, the responsibility for responding to the review was a matter for the States and Territories. For this purpose, the States and Territories agreed to form a Working Group to coordinate a national response to the report.

In general, the Working Group supported the Commission's broad objectives including that regulation of architects should not restrict practice. However, while the Commission's preferred option was to repeal the Architects Acts and remove statutory certification, the Working Group considered that the Commission's alternative approach to adjust existing legislation to remove anti-competitive elements provided the more appropriate direction.

In respect of adjusting existing legislation, the Working Group did not accept the Commission's recommendation that the use of the generic title 'architect' not be restricted. However, it did accept that organisations offering the services of an architect must use an architect to supervise and be responsible for those services.

The Working Group, in line with the Commission's findings, recommended that there be increased transparency in complaints and disciplinary procedures. It also recommended that the Architects Boards be encouraged to identify and implement means of broadening current certification channels and these boards comprise industry wide and consumer representation.

Implementation of ecologically sustainable development by Commonwealth departments and agencies

Inquiry report No. 5 signed 25 May 1999, released 15 February 2000.

Although the Government has yet to issue a formal response to the report, a number of developments since its release reflect the Commission's recommendations.

For example, the Commission recommended that guidelines of existing policy development and evaluation mechanisms (such as regulation impact statement guidelines and environmental impact assessment guidelines) should include specific reference to assessing the likely social, economic and environmental costs and benefits of proposals, in both the short term and long term.

In June 2001 the Government decided to amend its regulatory guidelines so that they specifically refer to the need for regulatory impact statements to include an assessment of ESD impacts.

A further Commission recommendation was that Commonwealth, State and Territory governments should seek to improve the efficiency and effectiveness of the processes of ministerial councils with respect to ESD implementation. In particular, the individual councils might ensure they have clearly specified objectives with respect to ESD implementation, and that they are meeting them.

The creation of the Natural Resources Ministerial Council, replacing ARMCANZ (agriculture and resource management) and ANCECC (environment and conservation), is consistent with the recommendation.

The Commission also recommended that, consistent with the principles of good practice policy making, departments and agencies should regularly, and as a matter of course, monitor the efficiency and effectiveness of their ESD related policies, programs and regulations.

The *Environment Protection and Biodiversity Conservation Act 1999* specifies that annual reports produced by Commonwealth agencies must deal with environmental matters. The content of reports is required, among other things to:

- include a report on how the activities of, and the administration (if any) of legislation by, the reporter during the period accorded with the principles of ecologically sustainable development; and
- identify how the outcomes (if any) specified ... contribute to ecologically sustainable development; ... and

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- identify the mechanism (if any) for reviewing and increasing the effectiveness of ... measures [to minimise costs of activities on the environment]. (s. 516A(6))

The Act also specifies the principles of ecologically sustainable development. (s. 3A)

The Commission considered that as such, the development of performance indicators against clearly stated objectives should occur early in the policy development phase.

Recently, through the Natural Resource Management Ministerial Council, Ministers adopted the National Framework for the Management and Monitoring of Australia's Native Vegetation. The development of a national monitoring and evaluation framework for natural resources was also agreed. This framework will aim to allow 'communities and governments to measure their progress in addressing natural resource challenges in an effective, affordable and practical manner'.

In recognition of the importance of establishing a consistent data series on key environmental attributes, the Commission considered that the Commonwealth Government should commit to producing a state of the environment report on a regular basis (for example, every five years).

The Commonwealth Government released its second State of the Environment report in March 2002, five years after its first report in 1996. Most States (except Victoria) regularly release State of the Environment reports.

In its report the Commission noted the need to avoid duplication in data collection and recommended that the ABS should have the major coordinating role among the custodian or lead agencies. Also, the current work of the ABS in this area should be given a higher priority which may require more resources.

The ABS appears to have increased its work on the environment, expanding its environmental monitoring (such as through its environment expenditure data, and the recent report *Measuring Australia's Progress*, which included many environmental indicators). Its next year book, to be released in January 2003, will have an environment theme. Also, the ABS Environment Statistics Section has begun collating performance and expenditure data as a basis from which performance monitoring, cost-effectiveness and impact assessment will be possible.

D Competitive neutrality complaints

The Productivity Commission Act and the Government's Commonwealth Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the competitive neutrality of government businesses and business activities and the outcomes of its investigations into those complaints. The Commonwealth Competitive Neutrality Complaints Office (CCNCO) received two formal complaints in 2001-02. There were five active complaints carried forward from 2000-01, including one which had previously been suspended in 1999-2000 but was reactivated at the request of the complainant. The CCNCO also conducted preliminary investigations into one query as to whether a formal complaint against a government activity was warranted. Details of these investigations are summarised in this appendix.

Complaints formally investigated

ARRB Transport Research Limited

In October 2000 Capricorn Capital Limited lodged a complaint against ARRB Transport Research Limited (ARRB). ARRB is a public company, limited by guarantee, whose 10 Members are the Commonwealth, each State and Territory Government and the Australian Local Government Association.

Capricorn Capital alleged that ARRB was operating in breach of the competitive neutrality principles that apply to significant government business activities. It cited a number of factors — including a tax-free status, low rate of return and privileged access to government assets and government guarantees — as likely sources of competitive advantage arising from its government status.

The CCNCO advised the Australian Local Government Association and the competitive neutrality complaint offices of each State and Territory Government, and consulted with those offices during its investigation and finalisation of its report (completed in August 2001).

During the course of the CCNCO's investigation, the Australian Taxation Office completed a review of the ARRB and withdrew its tax free status. That review, together with the abolition of wholesale sales tax consequent upon the introduction of the Goods and Services Tax (payable by ARRB), meant that the tax treatment of ARRB had become consistent with competitive neutrality principles.

For all the other areas of concern raised by the complainant, the CCNCO found that ARRB was not operating in breach of competitive neutrality principles and that no action in response to the complaint was required. The CCNCO did note, however, that sustained failure to achieve an appropriate rate of return would represent a breach of competitive neutrality principles.

Meteorological services to aviation

As described in a previous annual report, in February 2000 Metra Information Limited (a subsidiary of the government-owned meteorological service of New Zealand) lodged a complaint with the CCNCO (PC 2000, pp. 152–3). Metra alleged that the Civil Aviation Safety Authority's administration of aviation regulations conferred a regulatory advantage on the Bureau of Meteorology by preventing Metra competing in the market for meteorological services to the aviation industry.

At Metra's request, in April 2000, the investigation was put on hold pending discussions between Metra and the Civil Aviation Safety Authority. However, in May 2001, Metra requested that the complaint be reactivated in view of its concern that insufficient progress was being made to address matters at the heart of its complaint.

The CCNCO completed its investigation in September 2001. It found that the Bureau's aviation meteorological services constituted a business activity for competitive neutrality purposes. The investigation also considered that there was not a case for restricting competition in the provision of value added meteorological services to the aviation industry. Accordingly, the CCNCO recommended that the Government should complete its consideration of the options for introducing competition in the provision of meteorological services to aviation as soon as possible and, if no other model was likely to deliver greater net benefits to the community than competitive provision of value added services, this approach should be implemented forthwith.

Sydney Basin and Camden airports

In April 2001 the CCNCO received two complaints regarding the airports in the Sydney Basin and Essendon Airport, lodged on behalf of some of the councils within whose jurisdiction those airports are located. In May 2001, the CCNCO received an addendum to the complaints to include Camden Airport in the its investigation. Given the complaints related to the same matters, it combined them into one investigation. In late July 2001, the CCNCO received a separate complaint regarding Essendon airport from an interest group opposed to the privatisation of that airport. It too was initially included in the investigation.

During the course of the investigation, Essendon Airport was sold to private interests and, as it was no longer a ‘government’ business activity, this effectively removed the complaint from the aegis of competitive neutrality policy and the competitive neutrality complaint mechanism.

The complaints alleged that the airport operations in question and the Department of Transport and Regional Services (the Commonwealth agency responsible for managing the leasing agreement under which those airports operate on government-owned land):

- were not exposed to competitive neutrality arrangements; and/or
- were not complying with arrangements that should apply; and/or
- that current competitive neutrality arrangements were not effective.

At the heart of the complaints were questions of whether the activity of leasing Commonwealth-owned land for airport operations is a business activity for competitive neutrality purposes, and whether the airport businesses were complying with the tax and regulatory neutrality principles of competitive neutrality policy.

The CCNCO completed its report on this complaint in November 2001. It found that the Department’s activity of leasing the land on which the airports operate did not meet all the criteria stipulated under competitive neutrality policy for an activity to be classed as a business. Accordingly, the CCNCO found that it was not a business activity for the purposes of competitive neutrality. With respect to the business activities of the Sydney Basin airports, the investigation found that they were operating in a manner consistent with their competitive neutrality obligations and that no action under competitive neutrality was required.

Since the CCNCO reported on these matters, Sydney Airport has been sold to private interests. Camden and Hoxton Park airports (the other Sydney Basin airports) remain under Commonwealth Government ownership.

DocImage Business Services

In June 2001 the Legal Support Association of Australia lodged a complaint against DocImage Business Services — a business unit within the Australian Securities and Investment Commission.

The Legal Support Association of Australia alleged that DocImage Business Services — which provides copying and imaging support to the Australian Securities and Investment Commission as its core function — was not subject to the same business costs or tax regime as its competitors in the private sector. In addition, it questioned whether Docimage complied with competitive neutrality policy.

The CCNCO completed its report on this complaint in November 2001. It found that Docimage was operating in a manner consistent with competitive neutrality policy, and that no action was required under competitive neutrality policy in response to the complaint brought against it.

OzJobs

In November 2001 Mr Martin Buzza (representing a number of labour hire and recruitment companies) lodged a complaint alleging that OzJobs — a business division of Employment National — was operating in breach of competitive neutrality policy. In particular, the complaint alleged that OzJobs was being subsidised by the Commonwealth Government and that OzJobs was not paying payroll tax on a comparable basis to its private sector competitors.

The CCNCO completed its investigation of this complaint in May 2002. In its investigation the CCNCO assessed the performance of OzJobs against all the competitive neutrality obligations required of it, not just those specifically raised by the complainant. It found that OzJobs was operating in a manner consistent with its obligations under competitive neutrality policy and that no action was required with respect to the competitive neutrality complaint lodged against it.

Subsequent to the completion of the CCNCO's investigation, the Commonwealth Government announced its intention to sell Employment National.

Complaints not subject to formal investigation

AusInfo

In August 2001 the CCNCO received a formal complaint regarding the operation of AusInfo relating to the licensing of the right to reproduce the Standard For The Uniform Scheduling Of Drugs & Poisons. Following discussions between the CCNCO and the government agencies involved, a process was set in train which the CCNCO considers will satisfactorily address the concerns raised by the complainant. With the agreement of the complainant, the CCNCO has suspended formal investigations pending the outcome of that process. However, the CCNCO will continue to monitor the situation with a view to re-activating a formal investigation if necessary.

ComCar

In June 2002 the CCNCO received a request for clarification of whether ComCar might be operating in breach of competitive neutrality policy. Whether a formal complaint and investigation eventuates from this request will depend on the outcome of preliminary investigations aimed at determining the business status of ComCar. These investigations were continuing at 30 June 2002.

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 reports, conference proceedings, research submissions made to other review bodies and staff research papers. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups, and briefings to international visitors in 2001-02.

Commission research papers

Constraints on private conservation of biodiversity

July 2001

The private sector can play an important role in the conservation of biodiversity. However, this research paper found that a range of Commonwealth, State and Territory institutional arrangements — particularly aspects of the land tenure, competitive neutrality, native wildlife regulation and taxation frameworks — can constrain otherwise desirable private conservation activities.

Other key findings were that:

- The institutional frameworks are characterised by extensive and often complex legislation and regulation. At times, the interpretation or application of the frameworks, or of specific legislation or regulation may be uncertain. Further, the legislation and regulation may be applied inconsistently within or between jurisdictions.
- These factors can increase the relative costs and risks of private conservation activities compared with those of other viable land uses. This impact may influence investment decisions and lead to less efficient and less effective conservation outcomes.

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- Removing or reducing existing constraints could have positive biodiversity benefits, although further analysis is required to assess the appropriateness or otherwise of specific policy responses.

Structural adjustment — key policy issues

October 2001

The continuing debate in Australia about the future course of microeconomic reform and, in particular, national competition policy, reaffirms the importance of policy choices being made on the best available information on the likely benefits and costs, including adjustment and distribution consequences. Two challenging issues for policy advisers and policy makers alike are:

- the evaluative framework used for assessing reform proposals and in particular:
 - the way in which the benefits, costs and distributional effects of a proposed policy change are assessed when deciding whether a particular reform is in the interest of the community; and
 - the approach taken to handling policy trade-offs — in particular, those which can arise between efficiency and distributional objectives; and
- the development of implementation strategies to give effect to sound outcomes from policy changes involving consideration of:
 - the circumstances in which there is a role for additional measures, beyond the social security and tax systems and other generally available adjustment measures, to support the implementation of policy changes; and
 - the relative merits of each of the additional measures as aids to the implementation of policy changes.

This paper set out the Commission's views on these important issues, drawing on its own research and experience over the course of many public inquiries, as well as input from leading policy analysts who participated in a Commission workshop. Key points in the paper were:

- Good policy outcomes require robust evaluation processes. These should involve explicit consideration of the likely benefits, costs and distributional effects of reform proposals — not just for particular groups, but across the wider community. This can be a challenging task given inherent limitations in the information available to policy makers.
- Reforms are proposed because of the considerable benefits they can bring to the community. But reform usually involves adjustment and other costs.

Assessments of whether the expected benefits of a policy change exceed its costs need to be made.

- Where a reform proposal is likely to yield a net benefit for the community, but would impose significant transitional costs, there is a need to assess the scope for reducing those costs, and how this might best be achieved.
- Existing policy settings often favour some groups over others. Policy changes will typically affect this balance. Where distributional objectives have been specified, the cost effectiveness of alternative measures for achieving these objectives needs to be assessed. If substantial and uneven distributional effects are likely, the desirability and feasibility of taking offsetting actions should be examined.
- Reform proposals can require trade-offs among different policy objectives. These need to be identified and information provided to assist policy makers to appreciate the implications of different policy choices.
- The social security and tax systems, as well as generally available adjustment measures, will usually be the most appropriate vehicles for assisting the adjustment process and moderating adverse distributional impacts — whether arising from policy-induced or market-based change. However, they are not designed to handle all contingencies.
- In some circumstances, there is a role for additional measures to promote equitable outcomes and improve the efficiency of the adjustment process. Such measures include direct compensation and specific adjustment assistance. It may also be appropriate to modify the proposed policy change itself, either before or after its implementation.
- There are few hard and fast rules to aid decision making in this area. Particular reform proposals need to be examined on a case-by-case basis. Issues to be addressed are whether additional measures can target transitional problems effectively, are cost efficient, involve an equitable sharing of their financing costs, and are transparent with clear lines of accountability.

Harnessing private sector conservation of biodiversity

December 2001

This research paper drew together and extended previous research by the Commission on the role of the private sector in the conservation of biodiversity. The role of this study, and the earlier research which underpinned it, was not to identify specific jurisdictional reforms, but rather to highlight key areas for more detailed consideration. Key points from the paper were:

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- Conservation of biodiversity has traditionally been viewed as the responsibility of governments and the public sector. Often overlooked is the contribution to conservation that already occurs on private land jointly with other activities such as agriculture.
 - In addition, a new type of private provider is emerging with biodiversity conservation as its primary or sole focus, motivated to varying degrees by philanthropy and profit.
 - With more than 60 per cent of Australia's land area under private management, conservation cannot be adequately addressed without private sector participation. It is important from both an ecological and economic perspective that private sector provision of biodiversity conservation is as efficient and effective as possible.
 - Governments can play an important role in facilitating more efficient and effective private provision of biodiversity conservation. Some key steps include:
 - removing unnecessary legislative and regulatory constraints on private sector conservation activities;
 - clarifying rights and responsibilities for biodiversity conservation;
 - establishing appropriate cost sharing arrangements for bearing the costs of additional private sector provision where benefits are also enjoyed by the community; and
 - examining the potential for creating new markets to facilitate biodiversity conservation.
 - In addition to examining ways to ensure the efficiency and effectiveness of biodiversity conservation activities by the private sector, it is also important to examine the scope for enhancing the performance of public sector provision.

Offshore investment by Australian firms: survey evidence

February 2002

This paper presented the findings of a new survey by the Commission on what motivates Australian firms to operate or relocate their headquarters offshore, and the implications for Australia. It updated and extended a similar survey conducted in 1995 for the Industry Commission's inquiry *Implications for Australia of Firms Locating Offshore*.

The Commission found that the establishment by Australian firms of operations overseas typically complements their domestic activities and that relatively few firms are relocating their headquarters offshore.

Key points from the paper were:

- Offshore production was becoming more prevalent, with 50 per cent of survey respondents having, or planning, such investment.
 - However, relatively few Australian firms (only 4 per cent of respondents) were moving their headquarters offshore. That said, these were amongst the largest Australian firms.
- Commercial (or market-related) factors were more important overall than matters subject to government control in influencing decisions about offshore production.
 - Improved access to overseas markets was by far the most important commercial factor influencing decisions by Australian firms to produce offshore.
 - Although much less important, foreign and domestic tax regimes were next in line and the leading government-related influences.
- For those (few) firms involved in headquarters relocation, improved access to world markets and proximity to investors were the main motivations.
 - The Australian tax regime again emerged as the most important influence subject to government control.
- Australian mergers regulation did not rate as a major influence on respondents' decisions to produce or relocate offshore. However, for those firms that have relocated headquarters offshore, or are planning to do so, it was seen as the most important regulatory impediment to domestic expansion.
- Relatively few respondents reported a fall in their domestic activity or overall profitability as a result of establishing production facilities offshore. A larger number reported an increase, although a majority of firms reported 'no change' in their Australian activity.

Submissions to other review bodies

Productivity Commission submission to DFAT on Australia's approach to forthcoming trade negotiations

July 2001

This submission was made in response to the request by the Department of Foreign Affairs and Trade (DFAT) for public comment on the approach that Australia should take to the Fourth Ministerial Conference of the World Trade Organization

(WTO) held in November 2001 in Qatar and any subsequent trade negotiations. The submission commented on: why and how the Australian government should continue to support trade liberalisation and the WTO system; Australia's main interests in the agenda for a new round of multilateral negotiations; and other trade-related matters where the Commission has undertaken relevant research. Key points were that:

- A substantial body of research indicates that liberal trade policies facilitate economic growth and rising living standards.
 - Liberal trade policies have been key contributors to development and poverty alleviation. Contrary to common perceptions, these policies do not appear to be exacerbating global inequality and may be reducing it.
 - Domestic liberalisation offers the main benefits, but Australia stands to gain extra benefits if its trading partners further reduce their trade barriers.
- While the WTO system can be improved, it provides a rules-based multilateral framework for trade which has brought widespread benefits.
- The Australian government should continue to support trade liberalisation and increase its efforts to maintain and improve the WTO system.
 - Among other things, Australia should support the establishment of institutional mechanisms in each WTO country to provide information on the domestic costs and benefits of protection.
 - It should also back developing country interests in trade liberalisation by promoting reform in agriculture and services, and through technical and trade facilitation assistance and appropriate governance changes to the WTO.
- Australia, together with its Cairns Group partners, should reject so-called 'multifunctionality' arguments for agricultural protection and push for deep cuts to current levels of agricultural support in overseas countries.
- In relation to services, Australia should advocate broad negotiations, the reform of 'market access' as well as 'national treatment' restrictions, 'tops down' reform, and stronger mechanisms in all countries to vet domestic regulation.
- WTO rules governing regional trade agreements should be reviewed to make them more consistent with the spirit of open multilateralism. A fall-back option is to push for a comprehensive review of current regional trade agreements.
- Anti-dumping and other forms of 'contingent protection' should be reviewed as part of the forthcoming trade negotiations, but at this stage, there are good reasons not to focus on linkages to environmental and labour standards, changes to the WTO Agreement on Sanitary and Phytosanitary Measures, or investment rules.

Productivity Commission submission to the Environmental Management Systems Working Group

March 2002

Environmental management systems are being developed around the world to assist government departments, businesses and organisations to manage their impacts on the environment. The submission to the Environmental Management Systems Working Group, comprised of representatives from Commonwealth, State and Territory Departments of Primary Industry and Agriculture, was a response to the Working Group's discussion paper 'Towards a National Framework for the Development of Environmental Management Systems in Agriculture'. The submission reviewed specific aspects of the proposed national framework and focused on the role of governments in facilitating the adoption of environmental management systems. Key points were:

- The use of environmental management systems in agriculture may contribute to improved agricultural productivity and/or environmental outcomes although evidence to date is limited on both counts. The potential contribution of environmental management systems will depend not only on good design, but also good implementation, monitoring and review.
- The potential contribution of environmental management systems to agricultural productivity and/or environmental performance may be less important than other factors such as the overall motivation and managerial ability of resource managers.
- The potential costs of government involvement in facilitating the adoption of environmental management systems in agriculture, and the uncertainty about the outcomes, appeared to have been downplayed in the discussion paper. It is still too early to tell the extent to which government involvement is necessary or if it will provide net benefits to the community.
- The proposed national framework for the development of environmental management systems in agriculture may be a useful coordinating mechanism for governments, but aspects of the proposed framework appeared inappropriate and/or inconsistent. For example, the proposed framework emphasised a voluntary and industry-led approach, while at the same time emphasising government involvement and the potential use of incentives.
- The proposed limitations on the use of environmental management systems by governments in regulatory and other government programs should be considered on a case-by-case basis; particular uses should not be arbitrarily excluded from the national framework.

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- The potential use of incentives by governments will require careful analysis to assess whether the benefits to the community outweigh the costs. If incentives are to be used, they will require careful targeting, monitoring of effectiveness and review.

Conference/workshop proceedings

Health Policy Roundtable

Conference proceedings, June 2002

Key policy issues facing Australia's health sector include looming cost pressures, concerns about equity of health care provision and institutional barriers to the efficient operation of the markets for medical specialists. Such policy issues continue to demand systematic consideration. To this end, the Productivity Commission and the Melbourne Institute of Applied Economic and Social Research jointly organised a Health Policy Roundtable in March 2002 to build momentum for an informed and productive policy debate.

The Roundtable drew together 30 leading practitioners and analysts on health policy issues. The topics covered included international developments in health policy, cost pressures in health care systems, access and service delivery, supplier-induced demand and occupational regulation.

Based on international and Australian experience, some general observations from the Roundtable were that:

- countries face similar problems and sometimes adopt similar approaches to handling them (often not based on evidence);
- single payer systems may offer the greatest potential to control costs;
- in future overriding cost pressures will be on the demand side;
- most countries still face problems in delivering health care efficiently;
- significant inequities in health care persist;
- evidence on supplier-induced demand is incomplete and inconclusive; and
- there is scope to consider reform to regulations affecting the entry process to markets for medical specialists and the current approach to medical workforce planning.

Staff research papers

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

The role of technology in determining skilled employment: an economy-wide approach

Patrick Laplagne, Peter Marshall and Susan Stone, August 2001

Over the past 20 years there has been a shift toward employment of skilled workers in Australia, as well as in many other industrialised economies. This paper compared the role of technological change with that of trade in explaining the increased demand for skilled workers in Australia. Key points were:

- Between 1987 and 1994, employment of skilled labour increased by 13.8 per cent while employment of less skilled labour increased by 7 per cent. The major reason for these respective increases appeared to be technical change, which generally favoured the employment of skilled workers.
- Changes in trade and tariffs did not appear to have had a significant influence on the increase in the relative use of skilled labour in Australia between 1987 and 1994.
- Growing capital intensity in the Australian economy played a distinct role in increasing the demand for skilled labour in most industries.
- Analysis showed that technical change occurring at the industry level, as opposed to the specific input demand level, can play a significant role in determining the employment growth of skilled workers relative to less skilled workers.
- While the results did not support trade as a direct cause of the shift toward the use of skilled workers, this did not preclude the possibility that trade has indirectly affected the demand for different types of labour through accelerating technology transfer.

Electricity prices and cost factors

Chris Sayers and Dianne Shields, August 2001

The original purpose of this study was to benchmark electricity prices internationally. However, it was not possible to achieve this aim because sufficient information could not be obtained on the range of costs that have to be taken into account to infer relative performance from prices. Instead, prices, and the cost

factors influencing prices, were examined for a range of utilities in Australia, Canada, Germany, Israel and the United States. The utilities were chosen to minimise differences in operating characteristics. Key points were:

- There were significant differences in the prices paid for electricity (as at October 2000 relative to the prices of other goods and services) for residential and business customers across and among the studied Australian and overseas utilities.
- The observed price differences tended to be associated with differences in annual average consumption levels.
- There were differences in supply reliability among the utilities studied. These differences highlighted the importance of taking the associated cost difference into account when comparing performance, particularly between urban and rural-based utilities.
- There were some important cost factors over which utilities had no control. These must be taken into account for any conclusions to be drawn about performance relativities.
- Certain generation and distribution costs may be the most significant explanators of price differences. Scale diseconomies at the distribution level appeared to increase costs for some Australian utilities, particularly those in rural areas. For other utilities, generation fuel costs may also have resulted in higher costs.
- There was insufficient publicly available information and understanding of cost drivers to quantify the cost differences.
- The size of the cost differences and their potential significance indicated that the factors affecting costs warranted further research.

Creating markets for biodiversity: a case study of Earth Sanctuaries Ltd

*Barbara Aretino, Paula Holland, Deborah Peterson and Michael Schuele,
September 2001*

At the invitation of Environment Australia and the OECD, Commission staff conducted a case study of Earth Sanctuaries Ltd (ESL), a publicly listed company in Australia directly involved in conserving wildlife. ESL's focus was on the conservation of small native mammals that are threatened by exotic predators and the loss of habitat. Its strategy has been to acquire land, erect electrified vermin-proof fencing, remove feral animals, regenerate native vegetation and reintroduce selected native species.

This study, along with examples from other countries, contributed to an OECD/World Bank report on market creation for biodiversity products and services. The study considered how markets can effectively promote biodiversity conservation, and identified some key regulatory challenges faced by private sanctuaries in Australia. Key points from the case study were:

- ESL has had success in breeding several rare species and establishing them in its sanctuaries. Revenue is mainly from tourism and associated activities at its sanctuaries and from professional consulting.
- Notwithstanding success at conserving many species, there has been some public criticism of ESL's approach, including the use of fencing and the relative emphasis on animals with 'tourist appeal', rather than on restoring native ecosystems per se.
- All Australian jurisdictions have extensive legislation to protect native flora and fauna. The legislation restricts trade in, and the property rights to, native species. Private sector conservation generally, and ESL's commercial operations in particular, are heavily circumscribed by this.
- There does not appear to be a consistent and coordinated approach across jurisdictions for private conservation providers to access, keep, relocate and trade native wildlife, amplifying uncertainty for organisations which operate in several jurisdictions.
- Activities that private sanctuaries may wish to undertake on Crown leasehold land may conflict with lease conditions and associated regulations.
- Although new Australian accounting standards can be used to provide estimates of the value of wildlife assets, these values are difficult to verify because the assets cannot currently be traded.
- Competitive neutrality principles and measures — designed to ensure businesses do not enjoy net competitive advantages simply by virtue of their public ownership — appear to have limited application to public sanctuaries.
- Private sector activity can complement conservation activities by the public sector, both by adding to the resources marshalled by government for conservation and by freeing up government resources for other purposes.

Self-employed contractors in Australia: incidence and characteristics

Matthew Waite and Lou Will, September 2001

This paper presented an analysis of self-employed contracting in Australia. Self-employed contractors were defined as those persons operating their own business, with no employees and predominantly providing labour services to their clients.

They include dependent contractors (self-employed contractors with working arrangements similar to those of employees) and independent contractors (self-employed contractors whose working arrangements with each client reflect a contractor-client relationship). Ten per cent of employed persons, or 844 000 individuals, worked as self-employed contractors in August 1998.

Key findings were:

- The share of self-employed contractors in total employment grew at least 15 per cent over the two decades to 1998.
- Self-employed contractors were a diverse group, and differed markedly from employees in a number of ways. The major differences included:
 - gender (71 per cent were male, in comparison with 53 per cent of employees);
 - age (41 per cent were aged over 45, in comparison with 27 per cent of employees, and only 8 per cent were aged under 24 versus 22 per cent of employees);
 - occupation of employment (27 per cent worked as Tradespersons, compared with 12 per cent of employees);
 - industry of employment (25 per cent worked in Construction and 20 per cent in Property and business services in comparison with 4 and 9 per cent of employees, respectively); and
 - variability of earnings (73 per cent had earnings that varied from month to month in comparison with 25 per cent of employees).
- Dependent contractors have demographic and employment characteristics more like those of employees than do independent contractors.

Information technology and Australia's productivity surge

Dean Parham, Paul Roberts and Haishun Sun, October 2001

The principal objective of this paper was to examine the role of information and communication technologies (ICTs) in Australia's productivity growth and to compare the strength of that role with observations of the US. A related objective was to assess whether the production or use of ICTs is essential to catch an ICT-related wave of productivity acceleration. The key findings were:

- The adoption of information technology (hardware and software) contributed to Australia's productivity surge in the 1990s. By international standards, Australia was very quick on the uptake of ICTs in the 1990s.

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- The contributions of ICTs to labour productivity growth had been at least as strong in Australia as it had been in the US.
 - Contributions from ICT capital deepening were very similar in terms of timing (uplift from 1995) and magnitude (around 0.3 of a percentage point).
 - Australia had had a stronger contribution from multifactor productivity (MFP) growth (1.1 percentage point in Australia, 0.3 of a percentage point in the US), although pinpointing how much of the difference was due to ICTs is problematic.
 - Australia's stronger productivity growth meant Australia benefited more from one or both of two factors:
 - greater productivity gains from ICT use, which would suggest that Australian firms were able to use ICTs to catch up more quickly on the efficiency levels of their American counterparts; and
 - greater productivity gains from non-ICT factors, such as policy reforms.
 - The *production* of ICT equipment is not necessary to access 'new economy' productivity gains. ICT production added up to 0.3 of a percentage point to US productivity growth. Australia enjoyed a productivity improvement of 1.1 percentage points due to *use* of ICTs and other factors.
 - Moreover, relying on imports enabled Australia to benefit from tumbling world prices of ICT equipment. These brought real income gains to Australians.
 - Increased use of ICTs had substituted for increased use of other forms of capital. ICTs had brought no increase in the overall rate of substitution of capital for labour in either country.
 - Productivity gains associated with ICT use have been concentrated in distribution (wholesale and retail trade) and financial intermediation. The concentration of gains in a few industries suggested that the gains were mainly due to restructuring in these industries.

Global gains from liberalising trade in telecommunications and financial services

George Verikios and Xiao-guang Zhang, October 2001

This paper used a general equilibrium model to assess the effects of liberalising trade in telecommunications and financial services for 19 regions of the world. Key findings were that:

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- Barriers to trade in telecommunications and financial services are higher in developing economies than developed economies.
 - Removing all barriers to trade in telecommunications and financial services was estimated to increase world real GNP by some \$US 48 billion. In both cases, there were significant differences in effects on GNP in different regions.
 - Regions with high barriers, offering significant scope to liberalise, gained most from complete liberalisation. Regions with low barriers, and therefore limited scope to liberalise, gained less. This indicated that developing regions should have the strongest incentives to extend their GATS commitments to liberalise in these sectors.
 - Removing barriers to trade in these sectors creates a number of effects, for the world as a whole and for individual regions. The model classified these effects into changes in the allocation of resources, returns to the world capital stock, the terms of trade, product variety and foreign direct investment (FDI) income.
 - For the world as a whole, the gain from the reallocation of resources was found to dominate the gains from an increase in returns to the world capital stock and product variety when removing barriers to trade in telecommunications. When removing barriers to trade in financial services, the gain from an increase in returns to the world capital stock dominated the gains from the reallocation of resources and product variety.
 - For regions with high barriers, the gains from removing barriers to trade in telecommunications and financial services resulted from an improved allocation of resources, increased capital via FDI inflows and increased product variety. For regions with few barriers the gains from removing barriers to trade in telecommunications and financial services resulted from improvements in their terms of trade and increased FDI income from investment in other regions.
 - Unlike the typical effects of removing barriers to goods trade, regions with the highest barriers to trade experienced the biggest expansion in telecommunications and financial services output.
 - Commercial presence of foreign firms via FDI plays an important role in delivering telecommunications and financial services. Thus it is vital to model FDI explicitly when estimating the gains from liberalising trade in these sectors.

Price effects of regulation: international air passenger transport, telecommunications and electricity supply

Samantha Doove, Owen Gabbitas, Duc Nguyen-Hong and Joe Owen, September 2001

This study drew on research undertaken by the OECD to quantify the effects of restrictive domestic regulatory regimes in international air passenger transport, telecommunications and electricity supply for up to 50 OECD and non-OECD economies. It also drew out the implications of the OECD modelling work and explored many of the practical issues associated with measuring and assessing the effects of domestic regulation.

The results were subject to some qualification, primarily arising from the quality of the available data, but the original OECD research and the use made of it here provided a useful methodology for isolating the effects of regulatory regimes from other contributing factors.

The results for international air passenger transport suggested that the bilateral system of restrictions on the number of flights between countries and the conditions under which they operate collectively increased airfares by between 3 and 22 per cent.

The results for telecommunications and electricity supply were less robust than those for international air passenger transport, but suggested a weak positive relationship between the restrictiveness of regulatory regimes and prices in these sectors.

Statistical analysis of the use and impact of government business programs

John Revesz and Ralph Lattimore, November 2001

The paper examined the attributes of firms that participate in government business programs for export facilitation and R&D, their patterns of use and the effects these programs have on their performance. The analysis was based on statistical evidence from a unique longitudinal data set for Australian firms from 1994 to 1998. The programs examined included the Export Market Development Grants (EMDG) scheme, Export Access, Austrade services, the International Trade Enhancement Scheme (ITES, now discontinued), the R&D tax concession and R&D grants. The report was not an evaluation of the programs concerned or their administration by the responsible agencies.

The paper found that most firms in the target sectors of the government business programs do not make any use of them. Those more likely to participate included: older, larger, domestically-owned firms that had a strong accent on business planning and improvement; firms in the electronics and chemical industries; relatively capital intensive firms; and firms with lower initial productivity levels.

Controlling for a range of firm characteristics, participation in the EMDG scheme and in R&D programs appeared to have significant effects on the exports and R&D of recipient firms. However, the study estimates were likely to overstate the true impact of program participation, because firms with stronger export or R&D growth prospects were more likely to choose to participate in the programs.

Modelling of the Business Longitudinal Survey data did not reveal a statistically significant link between other export facilitation programs and the export growth of participants.

The study also found:

- no apparent link between productivity growth and participation in business programs. (However, ‘noise’ in the productivity data and other methodological problems may partly have explained this result);
- that participation in a government business program did not, by itself, provide a significant source of protection from subsequent business failure; and
- that, though they may be influential for some individual firms, the contribution of the programs to economy-wide changes — such as in sales, exports and productivity growth — was likely to be relatively small compared with other factors that drive the development of the economy.

Greenhouse gas emissions and the productivity growth of electricity generators

*Greg Murtough, David Appels, Anna Matysek and C. A. Knox Lovell,
December 2001*

The environmental impacts of economic activity are often ignored when estimating productivity growth. The main reason for this is that productivity growth is normally estimated using techniques that can only take account of inputs and outputs that have an observable price. This paper developed a methodology that could incorporate unpriced environmental impacts and applied it to one of the more important environmental issues facing Australia — greenhouse gas emissions from electricity generation. Electricity generation in four Australian states and the Northern Territory in the late 1990s was analysed.

Ignoring greenhouse gas emissions was shown to cause the productivity growth of electricity generators to be under-estimated in some years and over-estimated in other years.

Productivity growth tended to be under-estimated when ‘emission intensity’ (emissions per unit of electricity supplied) fell and over-estimated when emission intensity rose. This is because emissions are undesirable and so if they fall (grow) per unit of output then this will tend to increase (decrease) estimated productivity.

Changes in emission intensity (and hence the impact of emissions on estimated productivity growth) appeared to have been largely driven by movements in thermal efficiency (electricity supplied per unit of fuel).

There were regional differences in the cost of abating emissions (in terms of forgone output of electricity) once a generator had fully exploited emission abatement opportunities that do not require the use of additional inputs and/or a reduction in output.

The role of risk and cost–benefit analysis in determining quarantine measures

Monika Binder, February 2002

In Australia, as in other countries, quarantine measures are necessary to protect animals and plants from pests and diseases, and consequent impacts on community wellbeing. Such measures must conform with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). Import risk analysis is typically undertaken by WTO members to inform decisions about measures to reduce pest and disease risks. This usually involves scientifically assessing the risks of imports and evaluating measures to reduce those risks against a desired risk target. Key points of the paper were:

- The WTO requirements and international guidelines do not provide explicitly for consideration in import risk analyses of the costs and benefits to the wider community.
 - One mooted approach is to use cost–benefit analysis. This would entail choosing measures based on the magnitude of their net benefits to the community, rather than on whether they merely reduced risks to a given target. The role of scientific risk assessment would remain fundamental.
- However, there are a number of difficulties in seeking to broaden import risk analysis in this way. They include:

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- practical and technical difficulties. Cost–benefit analysis can be demanding of data and involve complex techniques. This implies a need for expert knowledge and judgment residing in independent institutions subject to public accountability and transparency;
 - legal obstacles. Some commentators argue that the SPS Agreement precludes a broad economic perspective; and
 - perverse policy outcomes, including the scope among WTO members to misuse economic analysis for protectionist purposes.
- Another option is to consider the scope to enhance import risk analyses by, among other means, using cost-effectiveness analysis of measures with comparable risk outcomes.

Fixed-term employees in Australia: incidence and characteristics

Matthew Waite and Lou Will, February 2002

Non-traditional employment, or employment that is not full-time and ongoing in someone else's business, has become increasingly common in Australia. This paper presented an analysis of the incidence and characteristics of one form of non-traditional employment — fixed-term employment. Fixed-term employees were defined to be employees with leave entitlements engaged for a specific period or for the duration of a specific task. At least 3.3 per cent of employed persons worked as fixed-term employees in 2000.

A key finding of the paper was that it is not possible, using available data, to determine whether or not fixed term employment became more common during the 1990s.

The paper went on to distinguish between fixed-term contract employees (those with leave entitlements engaged for a specific period) and ongoing employees (those with leave entitlements who did not work on a fixed-term basis). Fixed-term employees were a diverse group, and differed markedly from ongoing employees in a number of ways:

- gender (50 per cent were female, in comparison with 42 per cent of ongoing employees);
- age (40 per cent were aged less than 30, in comparison with 31 per cent of ongoing employees);
- State of employment (18 per cent worked in New South Wales, in comparison with 35 per cent of ongoing employees);

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- occupation of employment (44 per cent were Professionals, in comparison with 21 per cent of ongoing employees);
 - industry of employment (30 per cent worked in Education and 18 per cent in Health and community services, in comparison with 9 and 12 per cent, respectively, of ongoing employees); and
 - sector of employment (56 per cent worked in the public sector, in comparison with 26 per cent of ongoing employees).

The majority of fixed-term contract employees (72 per cent) expected that their contract would be renewed. This indicated that many fixed-term employees may have a longer tenure than their employment arrangement would suggest.

Australia's service sector: a study in diversity

Rosalie McLachlan, Colin Clark and Ian Monday, March 2002

The main objective of this study was to contribute to a better understanding of Australia's service sector and the important role it plays in the economy. The service sector dominates economic activity in Australia, accounting for more than three-quarters of the economy's output and for four out of every five jobs. But despite its importance, the sector is not well understood. There are many myths surrounding services.

Key points from the study were:

- Service jobs are often viewed as being poorly paid, low-skilled, mainly part-time or concentrated in urban areas. The reality is different.
 - Full-time service sector jobs are more highly paid than full-time jobs in the goods sector. Jobs in electricity, gas and water and finance and insurance are the highest paid service jobs, while the lowest paid are in retail trade and accommodation, cafes and restaurants.
 - The skills of service sector workers also compare favourably — 59 per cent of service sector employees work in high-skilled occupations compared with 55 per cent for the goods sector. Moreover, 54 per cent of service workers have post-secondary education qualifications compared with 47 per cent for the goods sector.
 - Over 70 per cent of service jobs are full-time. Indeed, since the mid-1980s, all the new (net) full-time jobs have been in services. However, a service worker is twice as likely to be part-time as a goods sector worker.

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- Just over 30 per cent of all service sector workers are employed in non-metropolitan regions. Over the past 15 years, service sector jobs have grown slightly faster in these regions than in metropolitan regions.
 - Another myth is that services are non-tradeable. In fact, services are the fastest growing component of international trade. Trade in services is far broader than cross-border exchanges (that is, the way goods are mainly traded). It can involve the establishment of a commercial presence abroad, the movement of consumers (for example, tourism), or the temporary movement of workers (for example, consulting services).
 - Services are commonly viewed as ‘productivity laggards’. Australia’s two outstanding performers, in terms of multifactor productivity growth over the period 1984-85 to 1999-00, were service industries — communications and electricity, gas and water. Other service industries, however, such as construction, cultural and recreational services, accommodation, cafes and restaurants, recorded relatively slow multifactor productivity growth.
 - International comparisons of recent service productivity levels (based on preliminary data for the mid to late 1990s), suggest that there is scope for further productivity gains in some of Australia’s service industries.

Creating markets for ecosystem services

Greg Murtough, Barbara Aretino and Anna Matysek, June 2002

This paper investigated how well environmental problems related to salinity, biodiversity and climate change can be addressed by creating markets for ecosystem services. Ecosystem services are the functions performed by ecosystems that lead to desirable environmental outcomes such as air and water purification, drought and flood mitigation, and climate stabilisation. Key points were:

- Markets rarely exist for ecosystem services. Typically, those who supply ecosystem services are not rewarded for all the benefits they provide to others, and those who reduce ecosystem services do not bear all the costs they impose on others.
- Without markets, allowing parties to act in their own private interest can result in fewer ecosystem services than is optimal for society as a whole.
- In theory, governments can create a market for an ecosystem service by defining a new property right that is both linked to the ecosystem service and can be exchanged for reward. Two Australian examples are:
 - the introduction of tradeable emission permits to limit saline discharges into the Hunter River; and

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- State Government legislation separating title over the carbon sequestered in forest plantations from ownership of the timber.
 - This approach to creating markets is more likely to be successful if the relevant property right has a number of characteristics, including:
 - ownership can be defined and enforced at reasonable cost; and
 - trades are not significantly hindered by high uncertainty; a lack of buyers and sellers; or a major imbalance in the information held by buyers and sellers.
 - It appears that climate change is the environmental problem that is most suitable for market creation. The greatest difficulties are likely to arise in creating a single market for all aspects of biodiversity.
 - A review of market creation schemes in Australia and the United States indicated that creating markets can, under the right conditions and with appropriate market design, be an efficient way to achieve certain environmental goals.
 - However, policy makers need to pay particular attention to the issues of scientific uncertainty, market liquidity, and the role of supporting regulation.

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

Techniques for measuring efficiency in health services

Stuart Peacock, Chris Chan, Melvino Mangolini and Dale Johansen, July 2001

Living, labour and environmental standards and the WTO

Tom Nankivell, January 2002

Productivity growth in Australia: are we enjoying a miracle?

Dean Parham, April 2002 (available on the Commission's website)

Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2001-02

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Conference on Regulation Reform Management and Scrutiny of Legislation, NSW State Parliament, Sydney	Challenges for Australia in regulatory reform	July 2001
NCC Workshop, The Public Interest Test Under National Competition Policy, Melbourne	Competition and the public interest	July 2001
Institute of Public Affairs Energy Forum, Melbourne	Regulating Australia's infrastructure	July 2001
Lloyd's List DCN Victorian Rail Summit, Melbourne	Regulating access to Australia's key infrastructure	July 2001
Ministerial Council for Aboriginal and Torres Strait Islander Affairs meeting, Brisbane	Government Services Review and indigenous reporting	July 2001
Communications Research Forum, Canberra	The role of ICT in Australia's economic performance	Sept 2001
Automotive Council, Canberra	The Productivity Commission's approach to the automotive inquiry	Feb 2002
Measuring and Managing Government Performance Summit, Canberra	Reviewing the service performance of Australian governments	Feb 2002
DITR/ABARE Outlook 2002, Canberra	The drivers of Australia's productivity surge	Mar 2002
Productivity Commission/Melbourne Institute, Health Policy Roundtable, Melbourne	Introduction to the roundtable	Mar 2002
IIR Conference, National Competition Policy Seven Years On, Melbourne	Competition regulation of infrastructure: getting the balance right	Mar 2002
Southern Region of the Federation of Automotive Products Manufacturers, Melbourne	The Productivity Commission's automotive inquiry	Mar 2002
Melbourne Institute/The Australian Towards Opportunity and Prosperity Conference, Melbourne	Productivity and Growth in Australia – Introductory remarks	Apr 2002
Melbourne Institute/The Australian Towards Opportunity and Prosperity Conference, Melbourne	Australia's interests in the WTO	Apr 2002
Economic Society Seminar, Canberra	Reflections on economics as a career of choice	May 2002
Automotive Council, Canberra (with Associate Commissioner Philip Weickhardt)	Preliminary views on post-2005 automotive assistance	June 2002
Commissioners:		
NCC Workshop, The Public Interest Test Under National Competition Policy, Melbourne (Richard Snape)	The NCP public interest test – Discussant	July 2001

2001 Queensland Landcare and Catchment Management Conference, Goondiwindi (Neil Byron)	A global environmental perspective	July 2001
National Centre for Development Studies, Conference on Resource Management in Asia–Pacific Developing Countries, ANU, Canberra (Neil Byron)	China’s search for affordable equitable environmental protection	July 2001
National Centre for Development Studies, Conference on Resource Management in Asia–Pacific Developing Countries, ANU, Canberra (Richard Snape)	Economic development – Discussant	July 2001
27 th Pacific Trade and Development Conference, ANU, Canberra (Richard Snape)	The new economy: challenges for East Asia and the Pacific – Discussant	Aug 2001
Airports Business and Management Briefing, Sydney (Richard Snape)	The Commission’s draft report on price regulation of airport services	Aug 2001
NCC Workshop, Managing Change in the Community, Melbourne (Neil Byron)	Discussant	Sept 2001
Centre for Health Program Evaluation, Monash University, 10 th Anniversary Function, Melbourne (Helen Owens)	Highlights of a career in health economics: Professor Richard Scotton	Nov 2001
Annual Conference of the Rainforest Cooperative Research Centre, Cairns (Neil Byron)	Constraints on private conservation: some challenges in managing Australia’s tropical rainforests	Nov 2001
Public address organised by NZ Parliamentary Commission for the Environment, Wellington, New Zealand (Neil Byron)	Conservation of biodiversity in Australia: issues, approaches and opportunities	Jan 2002
Australian APEC Study Centre Trade and Environment Training Program, Melbourne (Neil Byron)	Basic principles of management of the environment	Feb 2002
Quarterly Meeting of the Biodiversity Advisory Council, Canberra (Neil Byron)	Problems of environmental management in developing countries	Feb 2002
Australian APEC Study Centre Trade and Environment Training Program, Melbourne (David Robertson)	Biodiversity conservation on private lands	Feb 2002
Conservation Council of South Australia ‘Getting it Right’ Symposium, Adelaide (Neil Byron)	Food safety – quarantine and bio-safety	Mar 2002
Productivity Commission/Melbourne Institute Health Policy Roundtable, Melbourne (Helen Owens)	Economic principles and environmental management	Mar 2002
Mt Eliza Business School Business Transition in the Asia-Pacific, Melbourne (David Robertson)	Opening remarks	Mar 2002
	Australia: Economic Reform and Productivity – The Role of the Productivity Commission	Mar 2002

(Continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Melbourne Institute/The Australian Towards Opportunity and Prosperity Conference, Melbourne (Judith Sloan)	Unemployment: the role of active labour market programs, labour market deregulation and other factors	Apr 2002
Melbourne Institute Business Economics Forum, Melbourne (Helen Owens)	Addressing cost pressures in health: international approaches	June 2002
Melbourne Institute Public Economics Forum, Canberra (Helen Owens)	Addressing cost pressures in health: international approaches	June 2002
Staff:		
2001 Australasian Meeting of the Econometric Society, Auckland, NZ (Susan Stone)	Estimating input demand elasticities for Australia	July 2001
NSW State Parliament Conference on Regulation Reform: Management and Scrutiny of Legislation, Sydney (Paul Bek & Jennifer Bryant)	Regulatory impact assessment – when, how and why	July 2001
Summit on Performance Driven Public Sector Financial Management, Canberra (Paul Belin)	Productivity Commission's draft report on cost recovery	July 2001
Industry Economics Conference 2001, Melbourne (Lisa Gropp)	Productivity Commission review of legislation regulating the architectural profession	July 2001
Industry Economics Conference 2001, Melbourne (Chris Chan & Dale Johansen)	Techniques for measuring efficiency in health services	July 2001
Melbourne Institute Conference on Unemployment, Melbourne (Patrick Jomini)	New specification of labour supply in the Monash model – Discussant	Aug 2001
Victorian Curriculum and Assessment Authority, Melbourne (Robyn Sheen)	Review of Government Services and performance monitoring of schools and vocational education and training	Aug 2001
Dept of Industry, Science & Resources, Seminar, Canberra (Dean Parham)	Australia's productivity surge in the 1990s	Aug 2001
APEC–OECD Cooperative Initiative on Regulatory Reform Workshop, Beijing, China (Darrell Porter)	Simplifying business regulations in Australia	Sept 2001
Victorian Dept of Premier and Cabinet, Seminar, Melbourne (Dean Parham)	Role of ICTs in Australia's productivity growth	Sept 2001
30 th Annual Conference of Economists, Perth (Dean Parham)	Is Australia a new or old economy?	Sept 2001

30 th Annual Conference of Economists, Perth (Susan Stone)	The role of technology in determining skilled employment: an economy wide approach	Sept 2001
30 th Annual Conference of Economists, Perth (Greg Murtough & David Appels)	Greenhouse gas emissions and the productivity growth of electricity generators	Sept 2001
30 th Annual Conference of Economists, Perth (David Appels)	Forest rotation lengths under carbon sequestration payments	Sept 2001
4 th Annual AARES Symposium, Public Funding of Environmental Issues, Melbourne (Geoff Edwards, Visiting Researcher)	Land degradation and rehabilitation: a policy framework	Oct 2001
Inter-American Development Bank Conference on Impacts of Trade Liberalisation Agreements on Latin America and the Caribbean, Washington DC (Philippa Dee)	Trade in services	Nov 2001
PhD Conference in Economics and Business, Perth (Robert Kerr)	Theoretical and empirical perspectives on outsourcing – Discussant	Nov 2001
Economic Society of Australia Refresher Course, Melbourne (Dean Parham)	Productivity trends	Nov 2001
IIR Conference on Rural and Remote Telecommunications, Sydney (Chris Sayers)	Productivity Commission's report on international benchmarking of remote, rural and urban telecommunication's services	Nov 2001
OECD Workshop on Firm-level Statistics, Paris (Dean Parham)	Use of the Business Longitudinal Survey for firm-level productivity analysis	Nov 2001
OECD Seminar, Paris (Dean Parham)	Australian productivity trends	Nov 2001
Australian Labour Market Research Workshop, Canberra (Lou Will)	The demand for non-standard employment	Dec 2001
Workshop on Benchmarking of Electricity Network Performance, Sydney (Chris Sayers & Dianne Shields)	Lessons from benchmarking electricity prices	Feb 2002
3 rd OECD Services Experts Meeting, Paris (Patrick Jomini)	Quantifying the effects of liberalising services – the experience of the Australian Productivity Commission	Mar 2002
Productivity Commission/Melbourne Institute, Health Policy Roundtable, Melbourne (Ian Monday)	Supplier-induced demand: its nature, extent and some policy implications	Mar 2002
DFAT Seminar, Trade Treaties in the Global Environment, Canberra (Darrell Porter)	Treaties and the Government's RIS requirements	Mar 2002
WTO Symposium on Assessment of Trade in Services, Geneva (Philippa Dee)	Trade in infrastructure services and economic efficiency: Australia's experience	Mar 2002

(Continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Melbourne Institute/The Australian Towards, Opportunity and Prosperity Conference, Melbourne (Dean Parham)	Productivity growth in Australia: are we enjoying a miracle?	Apr 2002
Melbourne Institute/The Australian Towards, Opportunity and Prosperity Conference, Melbourne (Garth Pitkethly)	Offshore investment	Apr 2002
ANU Graduate Program in Public Policy and Centre for Economic Policy Research Seminar Series: Contemporary Labour Market Policies, Canberra (Dean Parham)	Technological change: computers and the living standards of Australians	April 2002
2 nd Workshop of the APEC–OECD Cooperative Initiative on Regulatory Reform, Mexico (Stephen Rimmer)	Measuring the impact of regulations: an Australian perspective	April 2002
Dept of Economics/Centre of Policy Studies, Monash University Melbourne (Patrick Laplagne)	Some determinants of prices paid in Australian spectrum auctions	May 2002
ANU Graduate Program in Public Policy, Canberra (Dean Parham)	Recent Australian experience and outcomes in growth and structure	May 2002
Conference on the Ministerial Discussion Paper on Higher Education, Canberra (Peter Forsyth, Visiting Researcher)	Higher education funding	May 2002
5 th GTAP Annual Conference on Global Economic Analysis, Taipei, Taiwan (Philippa Dee)	What's special about trade in services?	June 2002
5 th GTAP Annual Conference on Global Economic Analysis, Taipei, Taiwan (Susan Stone)	The implications of GMOs for Australian trade	June 2002
Institute of Company Directors, Melbourne (Dean Parham)	Australia's productivity performance	June 2002
38 th Australian Association of Ports and Marine Authorities Biennial Conference, Melbourne (Lisa Gropp)	Productivity Commission's Position Paper on the economic regulation of harbour towage and related services	June 2002
13 th Annual East Asian Seminar on Economics, Melbourne (Dean Parham)	Australia's 1990s productivity surge and its determinants	June 2002
World Congress of Environmental & Resource Economists, Monterey, California (Greg Murtough)	Why greenhouse gas emissions matter when estimating productivity growth: an application to Australian electricity generation	June 2002

Table E.2 Visits from international organisations and foreign delegations 2001-02

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
NZ Ministry of Economic Development	Briefing on the ORR	July 2001 Melbourne
South African Ministry for Public Enterprises	Discuss the Commission's GTE performance monitoring and international benchmarking activities	Aug 2001 Melbourne
Philippines Government Delegation	Briefing on competition policy in Australia	Aug 2001 Melbourne/ Canberra
NZ Ministry of Economic Development	Discuss the Commission's activities and industry policy issues	Sept 2001 Canberra
APEC study group from China	Briefing on Commission inquiries and research	Oct 2001 Melbourne
Delegation from Egypt	Discuss trade and developing country issues	Dec 2001 Melbourne
Delegate from the Japanese Government	Discuss the Commission's activities and microeconomic reform issues	Dec 2001 Canberra
Japan Center for International Finance	Discuss Australia's structural reform program since the mid-1980s	Dec 2001 Melbourne
Bangladesh Ministry of Planning	Discussion of structural adjustment issues	Feb 2002 Canberra
OECD Trade Directorate	Discuss Commission inquiries and research relating to trade	Feb 2002 Canberra
Japanese Ministry of Land, Infrastructure and Transport	Discuss privatisation in the transport sector	Feb 2002 Canberra
Delegation from Vietnam	Briefing on the Commission's performance monitoring and benchmarking activities	Mar 2002 Melbourne
NZ Ministry of Economic Development	Briefing on the Commission's work program	Mar 2002 Canberra
NZ Ministry of Economic Development	Briefing on regulatory reform issues and the ORR's regulatory oversight role	April 2002 Canberra
Philippines Government Delegation	Briefing on the Report on Government Services	April 2002 Melbourne
NZ High Commissioner and Ministry of Economic Development	Discuss issues relating to regulation impact statements, standards setting and ministerial councils	May 2002 Canberra
NZ Treasury and City Councils	Discuss the Commission's work on road provision and rail reform	May 2002 Melbourne

(continued next page)

Table E.2 (continued)

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
Delegation from Vietnam	Discuss globalisation and trade issues	May 2002 Canberra
International Monetary Fund	Discuss the Commission's work on productivity, trade and structural reform	June 2002 Melbourne
NZ Treasury	Discuss productivity issues	June 2002 Canberra
NZ Ministry of Economic Development	Briefing on the role and functions of the ORR	June 2002 Canberra
APEC study group from Indonesia	Briefing on Commission activities and the ORR	June 2002 Melbourne

F Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies completed in 2001-02. It also lists staff research papers and staff working papers, the views of which do not necessarily reflect those of the Commission. The Commission's website provides public access to nearly all its publications and to many of those of its predecessors.

Government-commissioned projects

Inquiries — draft reports and position papers

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

- *Price Regulation of Airport Services*, Draft Report (24 August 2001)
- *Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation*, Draft Report (19 September 2001)
- *Citrus Growing and Processing*, Position Paper (12 February 2002)
- *Radiocommunications*, Draft Report (28 February 2002)
- *Independent Review of Job Network*, Draft Report (7 March 2002)
- *Review of Section 2D of the Trade Practices Act 1974: Local Government Exemptions*, Draft Report (16 May 2002)
- *Economic Regulation of Harbour Towing and Related Services*, Position Paper (6 June 2002)
- *Review of Automotive Assistance*, Position Paper (27 June 2002)

Inquiries — final reports

Copies of final reports can be obtained from Government Info Shops upon release by the Government and from the Commission's website thereafter. Publications marked with an asterisk (*) had not been released at 30 June 2002.

-
- *Review of the Prices Surveillance Act 1983**, Inquiry Report No. 14 (14 August 2001)
 - *Cost Recovery by Government Agencies*, Inquiry Report No. 15 (16 August 2001)
 - *Telecommunications Competition Regulation*, Inquiry Report No. 16 (21 September 2001)
 - *Review of the National Access Regime**, Inquiry Report No. 17 (16 August 2001)
 - *Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation*, Inquiry Report No. 18 (10 December 2001)
 - *Price Regulation of Airport Services*, Inquiry Report No. 19 (23 January 2002)
 - *Citrus Growing and Processing*, Inquiry Report No. 20 (30 April 2002)
 - *Independent Review of the Job Network**, Inquiry Report No. 21 (3 June 2002)
 - *Radiocommunications**, Report No. 22 (1 July 2002)

Other commissioned projects

- *International Pharmaceutical Price Differences*, Research Report (July 2001)
- *Impact of a Foot and Mouth Disease Outbreak on Australia*, Research Report (June 2002)

Performance reporting

Steering Committee for the Review of Commonwealth/State Service Provision

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

- *Asset Measurement in the Costing of Government Services*, Research Paper (September 2001)
- *Report on Government Services 2002*, Volume 1: Education, Health, Justice (February 2002)*
- *Report on Government Services 2002*, Volume 2: Emergency Management, Community Services, Housing (February 2002)*

Other performance reporting and benchmarking

Copies of reports can be obtained from Government Info Shops and from the Commission's website.

- *International Benchmarking of Remote, Rural and Urban Telecommunications Services*, International Benchmarking (July 2001)
- *Electricity Prices and Cost Factors*, Staff Research Paper, Chris Sayers and Dianne Shields (August 2001)
- *Trends in Australian Infrastructure Prices 1990-91 to 2000-01*, Performance Reporting (May 2002)
- *Financial Performance of Government Trading Enterprises 1996-97 to 2000-01*, Performance Reporting (June 2002)

Competitive neutrality complaints

Copies of investigations are available from the Commonwealth Competitive Neutrality Complaints Office (CCNCO) and Productivity Commission websites.

- *ARRB Transport Research Limited*, Investigation No. 6 (September 2001)
- *Meteorological Services to Aviation*, Investigation No. 7 (December 2001)
- *Sydney and Camden Airports*, Investigation No. 8 (December 2001)
- *Docimage Business Services*, Investigation No. 9 (December 2001)
- *OzJobs*, Investigation No. 10 (June 2002)

Supporting research and annual reporting

Copies of most reports can be obtained from Government Info Shops and from the Commission's website. Requests for inquiry supplements and copies of submissions made by the Commission to other review bodies should be directed to the Commission. Submissions can also be accessed from the Commission's website. Staff working papers and research memoranda are available only on request from the authors, but are listed in name on the Commission's website.

Annual reports

- *Annual Report 2000-01* (October 2001)
- *Regulation and its Review 2000-01* (November 2001)
- *Trade & Assistance Review 2000-01* (December 2001)

Commission research papers

- *Constraints on Private Conservation of Biodiversity* (July 2001)
- *Structural Adjustment – Key Policy Issues* (July 2001)
- *Harnessing Private Sector Conservation of Biodiversity* (December 2001)
- *Offshore Investment by Australian Firms: Survey Evidence* (February 2002)

Submissions to other review bodies

- *Productivity Commission Submission to DFAT on Australia's Approach to Forthcoming Trade Negotiations* (July 2001)
- *Productivity Commission Submission to the Environmental Management Systems Working Group* (March 2002)

Conference/workshop proceedings

- *Health Policy Roundtable*, Conference proceedings (June 2002)

Staff research papers

- *The Role of Technology in Determining Skilled Employment: An Economywide Approach*, Patrick Laplagne, Peter Marshall and Susan Stone (August 2001)
- *Creating Markets for Biodiversity: A Case Study of Earth Sanctuaries Ltd*, Barbara Aretino, Paula Holland, Deborah Peterson and Michael Schuele (September 2001)
- *Self-Employed Contractors in Australia: Incidence and Characteristics*, Matthew Waite and Lou Will (September 2001)
- *Information Technology and Australia's Productivity Surge*, Dean Parham, Paul Roberts, and Haishun Sun (October 2001)
- *Global Gains from Liberalising Trade in Telecommunications and Financial Services*, George Verikios and Xiao-guang Zhang (October 2001)
- *Price Effects of Regulation: International Air Passenger Transport, Telecommunications and Electricity Supply*, Samantha Doove, Owen Gabbitas, Duc Nguyen-Hong and Joe Owen (October 2001)
- *Statistical Analysis of the Use and Impact of Government Business Programs*, John Revesz and Ralph Lattimore (November 2001)

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- *Greenhouse Gas Emissions and the Productivity Growth of Electricity Generators*, Greg Murtough, David Appels, Anna Matysek and C. A. Knox Lovell (December 2001)
 - *The Role of Risk and Cost Benefit Analysis in Quarantine Decision Making*, Monika Binder (February 2002)
 - *Fixed-Term Employees in Australia: Incidence and Characteristics*, Matthew Waite and Lou Will (February 2002)
 - *Australia's Service Sector: A Study in Diversity*, Rosalie McLachlan, Colin Clark and Ian Monday (March 2002)
 - *Creating Markets for Ecosystem Services*, Greg Murtough, Barbara Aretino and Anna Matysek (June 2002)

Staff working papers

- *Techniques for Measuring Efficiency in Health Services*, Stuart Peacock, Chris Chan and Melvino Mangolini (July 2001)
- *Living, Labour and Environmental Standards and the WTO*, Tom Nankivell (January 2002)
- *Productivity Growth in Australia: Are We Enjoying a Miracle?*, Dean Parham (April 2002)

Other publications

Copies of these publications are available from the Commission and the website. The Research Program from August 2001 incorporates the Digest of Current Research Projects. A list of current research projects is maintained on the Commission's website.

- *Productivity Commission Research Program 2001-2002* (August 2001)
- *pc update*, a quarterly newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 14, September/October 2001; Issue 15, December 2001; Issue 16, March/April 2002; Issue 17, June 2002)

G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2001-02. The statements have been prepared on an accrual accounting basis.

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Statement of financial performance	205
Statement of financial position	206
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Schedule of contingencies	208
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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Productivity Commission for the year ended 30 June 2002. The financial statements comprise:

- Statement by the Chairman;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments; and
- Notes to and forming part of the Financial Statements.

The Productivity Commission's Chairman is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Productivity Commission's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Productivity Commission as at 30 June 2002, and its financial performance and cash flows for the year then ended.

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'Allan Thompson', written in a cursive style.

Allan Thompson
Executive Director

Delegate of the Auditor-General

Canberra
16 September 2002

Statement by the Chairman

Certification

In my opinion, the attached financial statements give a true and fair view of the matters required by Schedule 1 to the Financial Management and Accountability (Financial Statements 2001-2002) Orders made under section 63 of the *Financial Management and Accountability Act 1997*.

Gary Banks
Chairman

4 September 2002

Productivity Commission
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2002

	Note	2001-02 \$'000	2000-01 \$'000
Revenues from ordinary activities			
Revenues from government	4A	22,605	22,148
Interest	4B	197	214
Sales of goods and services	4B	237	206
Other	4B	–	22
Resources received free of charge	4A	<u>34</u>	<u>33</u>
<i>Total revenues from ordinary activities</i>		<u>23,073</u>	<u>22,623</u>
Expenses from ordinary activities			
Employees	5A	17,441	16,876
Suppliers	5B	5,199	4,719
Depreciation and amortisation	5C	937	833
Write-down of assets	5D	9	–
Net losses from sale of assets	4C	<u>35</u>	<u>1</u>
<i>Total expenses from ordinary activities</i>		<u>23,621</u>	<u>22,429</u>
<i>Net operating surplus (deficit) from ordinary activities</i>		<u>(548)</u>	<u>194</u>
<i>Net surplus (deficit)</i>		<u>(548)</u>	<u>194</u>
<i>Total changes in equity other than resulting from transactions with owners as owners</i>	9	<u>(548)</u>	<u>194</u>

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

Productivity Commission

STATEMENT OF FINANCIAL POSITION

as at 30 June 2002

	Note	2001-02 \$'000	2000-01 \$'000
ASSETS			
Financial assets			
Cash		64	80
Investments – Term Deposit		4,100	3,800
Receivables	6	<u>107</u>	<u>64</u>
Total financial assets		<u>4,271</u>	<u>3,944</u>
Non-financial assets			
Infrastructure, plant and equipment	7	1,978	2,417
Intangibles	7	120	219
Prepayments		<u>357</u>	<u>193</u>
Total non-financial assets		<u>2,455</u>	<u>2,829</u>
Total Assets		<u>6,726</u>	<u>6,773</u>
LIABILITIES			
Provisions			
Capital use charge		–	49
Employees	8A	<u>6,368</u>	<u>6,155</u>
Total provisions		<u>6,368</u>	<u>6,204</u>
Payables			
Suppliers	8B	415	181
Other		<u>133</u>	<u>30</u>
Total payables		<u>548</u>	<u>211</u>
Total Liabilities		<u>6,916</u>	<u>6,415</u>
EQUITY			
Parent entity interest			
Contributed equity	9	1,686	1,686
Reserves	9	96	96
Retained surpluses or accumulated deficits	9	<u>(1,972)</u>	<u>(1,424)</u>
Total parent entity interest		<u>(190)</u>	<u>358</u>
Total Equity		<u>(190)</u>	<u>358</u>
Current liabilities		3,796	3,385
Non-current liabilities		3,120	3,030
Current assets		4,628	4,137
Non-current assets		2,098	2,636

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

Productivity Commission
STATEMENT OF CASH FLOWS

for the year ended 30 June 2002

	Note	2001-02 \$'000	2000-01 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		22,605	22,148
Interest		196	227
Sale of goods and services	4B	237	211
Other		–	22
GST refunds		<u>452</u>	<u>352</u>
Total cash received		<u>23,490</u>	<u>22,960</u>
Cash used			
Employees		17,227	16,076
Suppliers		5,001	4,926
Other		<u>486</u>	<u>370</u>
Total cash used		<u>22,714</u>	<u>21,372</u>
Net cash from operating activities	10	<u>776</u>	<u>1,588</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from property, plant and equipment		<u>24</u>	<u>4</u>
Total cash received		<u>24</u>	<u>4</u>
Cash Used			
Investments		300	2,300
Purchase of property, plant and equipment		<u>467</u>	<u>1,126</u>
Total cash used		<u>767</u>	<u>3,426</u>
Net cash used by investing activities		<u>(743)</u>	<u>(3,422)</u>
FINANCING ACTIVITIES			
Cash received			
Proceeds from equity injections		–	<u>1,686</u>
Total cash received		–	<u>1,686</u>
Cash used			
Capital use charge paid		<u>49</u>	–
Total cash used		<u>49</u>	<u>–</u>
Net cash from financing activities		<u>(49)</u>	<u>1,686</u>
Net increase (decrease) in cash held		(16)	(148)
Cash at the beginning of the reporting period		<u>80</u>	<u>228</u>
Cash at the end of the reporting period	10	<u>64</u>	<u>80</u>

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

Productivity Commission
SCHEDULE OF COMMITMENTS
<i>as at 30 June 2002</i>

	Note	2001-02 \$'000	2000-01 \$'000
COMMITMENTS			
Operating leases		5,255	6,557
Other commitments		<u>642</u>	<u>334</u>
Total commitments		<u>5,897</u>	<u>6,891</u>
BY MATURITY			
All commitments			
One year or less		2,069	1,695
From one to five years		3,828	5,196
Over five years		<u>—</u>	<u>—</u>
Total commitments		<u>5,897</u>	<u>6,891</u>
Operating Lease Commitments			
One year or less		1,685	1,580
From one to five years		3,570	4,977
Over five years		<u>—</u>	<u>—</u>
Total operating lease commitments		<u>5,255</u>	<u>6,557</u>

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

Productivity Commission
SCHEDULE OF CONTINGENCIES
<i>as at 30 June 2002</i>

	Note	2001-02 \$'000	2000-01 \$'000
CONTINGENT LOSSES		—	—
CONTINGENT GAINS		—	—
Net contingencies		—	—

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

Productivity Commission

Notes to and forming part of the Financial Statements for the Year Ended 30 June 2002

Note	Description
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	Events Occurring after Balance Date
4	Operating Revenues
5	Operating Expenses
6	Financial Assets
7	Non-financial Assets
8	Provisions and Payables
9	Equity
10	Cash Flow Reconciliation
11	Appropriations
12	Reporting of Outcome
13	Remuneration of Executives
14	Contingencies
15	Act of Grace Payments and Waivers
16	Average Staffing
17	Financial Instruments

Note 1 Objectives of the Productivity Commission

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation.

The Government's outcome objective 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.

Note 2 Summary of Significant Accounting Policies

2.1 Basis of Accounting

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

The statements have been prepared in accordance with:

- Schedule 1 to Orders made by the Finance Minister for the preparation of Financial Statements in relation to financial years ending on or after 30 June 2002;
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The statements have also been prepared having regard to the Explanatory Notes to Schedule 1, and Finance Briefs issued by the Department of Finance and Administration.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis, and are in accordance with historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The Commission is part of the legal entity that is the Commonwealth Government, which is ultimately responsible for all the debts of the agency. The existence of total liabilities in excess of total assets of the Commission as reported in the Statement of Financial Position has no bearing on whether the Commission's debts will be met.

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

2.2 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000-01 except in respect of output appropriations (refer Note 2.5(a)).

There were no changes in accounting policy in 2001-2002. However the presentation of the financial statements has been changed to facilitate comparison in accordance with the best practice guide issued by the Australian National Audit Office.

2.3 Agency and Administered items

Commission assets, liabilities, revenues and expenses are those items that are controlled by the Commission. They include:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from appropriations or independent sources; and
- employee, supplier and depreciation expenses incurred in producing agency outputs.

The Commission had no administered items in 2001-2002. Administered items are those items which are controlled by the Government and managed or oversighted by an agency on behalf of the Government. These items include benefit payments and taxes, fees and fines.

2.4 Reporting by Outcome

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to the Commission is presented in Note 12.

2.5 Revenue

The revenues described in this Note are revenues relating to the outputs of the Commission.

(a) Revenues from Government - Appropriations

The full amount of the appropriation for Commission outputs for the year is recognised as revenue. This is a change in accounting policy caused by the introduction of a new requirement to this effect in the Finance Minister's Orders. (In 2000-01, output appropriations were recognised as revenue to the extent the appropriations had been drawn down from the Official Public Account).

The change in policy had no financial effect in 2001-02 as the full amount of the output appropriation for 2000-01 had been drawn down in that year.

(b) *Interest*

Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

(c) *Resources received free of charge*

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

(d) *Other revenue*

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.6 Employee Entitlements

Salaries and wages, and leave

Liabilities for employee entitlements are accumulated as a result of employees rendering services up to the reporting date. These benefits include salaries and wages, annual leave and long service leave.

Liabilities arising in respect of entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. The non-current portion of the long service entitlement is recognised and measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Separation and redundancy

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2002.

Superannuation

Staff of the Commission employed under the Public Service Act, contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$2,115,442 (2000-01: \$1,968,511) in relation to these schemes have been expensed in these financial statements.

No liability other than that disclosed in Note 8A is shown for superannuation in the Statement of Financial Position as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

2.7 Leases

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities to be amortised over the period of the lease.

2.8 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

2.9 Financial instruments

Accounting policies for financial instruments are stated at Note 17.

2.10 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.

2.11 Property, plant and equipment

Asset recognition threshold

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

Revaluations

Schedule 1 to the Financial and Management Accountability (FMA) Orders requires that buildings, infrastructure, plant and equipment be revalued progressively in accordance with the 'deprival' method of valuation in successive three-year cycles.

The Commission has implemented the requirements of Schedule 1 as follows:

- plant and equipment was revalued initially at 30 June 1998; and
- the remaining assets (leasehold improvements) were revalued at 30 June 1999.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period. This has been estimated by calculating the written down replacement cost (see Note 7).

The Commission has assessed the carrying amounts of assets revalued initially at 30 June 1998 and 1999 and has determined that no adjustment is currently required to be made for those assets to be valued in accordance with the deprival method.

Assets in each class acquired after the commencement of a progressive revaluation cycle are not captured by the progressive revaluation then in progress.

Recoverable Amount Test

Schedule 2 requires the application of the recoverable amount test to non-current assets in accordance with AAS 10 *Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed and it has been determined that they are not in excess of their recoverable amounts.

Depreciation and Amortisation

Depreciable property, plant and equipment assets are written-down to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2001-2002	2000-2001
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years
Intangibles (Computer Software)	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 7B.

2.12 Taxation

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

2.13 Capital Use Charge

A capital use charge of 11% (2000-01: 12%) is imposed by the Government on the net assets of the Commission. The charge is adjusted to take account of any asset gifts and revaluation increments during the financial year. As the Commission had a negative net equity balance at 30 June 2002, it has not been required to provide for a capital use charge.

2.14 Insurance

The Commission has insured for risks through the Government's insurable risk managed fund, Comcover. Workers compensation is insured through Comcare Australia.

2.15 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.16 Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of executives; and
- remuneration of auditors.

Note 3 Events Occurring after Balance Date

No significant events requiring disclosure in or adjustment to these financial statements have occurred subsequent to balance date.

Note 4 Operating Revenues

Note 4A – Revenues from government

	2001-02 (\$'000)	2000-01 (\$'000)
Appropriations for outputs	22,605	22,148
Resources received free of charge – Auditor-General	<u>34</u>	<u>33</u>
Total	<u>22,639</u>	<u>22,181</u>

The Auditor-General provides financial statement audit services free of charge to the Commission. The fair value of the services was \$34,000 (2000-2001 \$33,000). No other services were provided by the Auditor-General.

The following resources received free of charge are not recognised, as the costs cannot be measured reliably:

- Australian Archives – Storage and disposal facilities.

Note 4B – Sales of goods and services / Other revenue

	2001-02 (\$'000)	2000-01 (\$'000)
Sales of goods and services		
- Government	16	20
- Non – Government	221	186
Interest on investments	197	214
Other revenue	-	22
Total	<u>434</u>	<u>442</u>

Other revenue represents recoveries from Comcare of compensation payments made to employees in previous years and charged as operating expenses at that time.

Note 4C – Net gains (losses) from sales of assets

	2001-02 (\$'000)	2000-01 (\$'000)
Non-financial assets		
Infrastructure, plant and equipment		
Proceeds from sales	24	4
Net book value at sale	<u>59</u>	<u>5</u>
Net loss on disposal	<u>(35)</u>	<u>(1)</u>

Note 5 Operating Expenses

Note 5A – Employee expenses

	2001-02 (\$'000)	2000-01 (\$'000)
Remuneration (for services provided)	17,069	16,575
Separation and redundancy	<u>372</u>	<u>301</u>
Total	<u>17,441</u>	<u>16,876</u>

Note 5B – Suppliers expenses

	2001-02 (\$'000)	2000-01 (\$'000)
Supply of goods and services	3,643	3,219
Operating lease rentals	<u>1,556</u>	<u>1,500</u>
Total	<u>5,199</u>	<u>4,719</u>

Note 5C – Depreciation and amortisation

	2001-02 (\$'000)	2000-01 (\$'000)
Depreciation and amortisation of infrastructure, plant & equipment	838	735
Amortisation of intangibles	<u>99</u>	<u>98</u>
Total	<u>937</u>	<u>833</u>

Note 5D – Write-off of assets

	2001-02 (\$'000)	2000-01 (\$'000)
Non-financial assets		
Plant & equipment – write off on disposal	<u>9</u>	<u>–</u>
Total	<u>9</u>	<u>–</u>

Note 6 Financial Assets

Receivables

	2001-02 (\$'000)	2000-01 (\$'000)
Goods and services	40	5
GST receivable	67	59
Less: Provision for doubtful debts	<u>–</u>	<u>–</u>
Total	<u>107</u>	<u>64</u>
Receivables (gross) which are overdue are aged as follows:		
Not overdue	107	64
Overdue by:		
Less than 30 days	–	–
30 to 60 days	–	–
60 to 90 days	<u>–</u>	<u>–</u>
	<u>107</u>	<u>64</u>

Note 7 Non-financial Assets

Infrastructure, Plant and Equipment, and Intangibles

Table A Summary of fixed assets

	2001-02 (\$'000)	2000-01 (\$'000)
Leasehold improvements		
Leasehold at cost	678	670
Accumulated amortisation	<u>251</u>	<u>97</u>
	<u>427</u>	<u>573</u>
Leasehold improvements – at 1999-2002 valuation	3,198	3,198
Accumulated amortisation	<u>2,627</u>	<u>2,343</u>
	<u>571</u>	<u>855</u>
Total Leasehold improvements	<u>998</u>	<u>1,428</u>
Plant and equipment		
Plant and equipment at cost	1,670	1,071
Accumulated depreciation	<u>784</u>	<u>359</u>
	<u>886</u>	<u>712</u>
Plant and equipment – at 1998-2001 valuation	799	1,318
Accumulated depreciation	<u>705</u>	<u>1,041</u>
	<u>94</u>	<u>277</u>
Total Plant and equipment	<u>980</u>	<u>989</u>
Total Infrastructure, plant and equipment	<u>1,978</u>	<u>2,417</u>
Intangibles		
Computer software at cost	528	528
Accumulated amortisation	<u>408</u>	<u>309</u>
Total Intangibles	<u>120</u>	<u>219</u>
Total Infrastructure, plant and equipment, and intangibles	<u>2,098</u>	<u>2,636</u>

In accordance with Note 2.11, assets purchased since the revaluations carried out in 1998 and 1999, are shown at cost and have been disclosed separately from those recorded at valuation in the table above. The Commission has determined that the plant and equipment valuation performed in 1998 and the leasehold improvements valuation performed in 1999 remain current.

Table B Analysis of property, plant, equipment and intangibles.
Movement summary 2001-2002 for fixed assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
Gross value					
As at 1 July 2001	3,868	2,389	6,257	528	6,785
Additions	8	459	467	–	467
Disposals	–	(336)	(336)	–	(336)
Write-offs	–	(43)	(43)	–	(43)
As at 30 June 2002	<u>3,876</u>	<u>2,469</u>	<u>6,345</u>	<u>528</u>	<u>6,873</u>
Accumulated depreciation/amortisation					
As at 1 July 2001	2,440	1,400	3,840	309	4,149
Charge for additions	–	66	66	–	66
Charge for assets held 1 July 2001	438	334	772	99	871
Disposals	–	(277)	(277)	–	(277)
Write-offs	–	(34)	(34)	–	(34)
As at 30 June 2002	<u>2,878</u>	<u>1,489</u>	<u>4,367</u>	<u>408</u>	<u>4,775</u>
Net book value as at 30 June 2002	<u>998</u>	<u>980</u>	<u>1,978</u>	<u>120</u>	<u>2,098</u>
Net book value as at 1 July 2001	1,428	989	2,417	219	2,636

Leasehold improvements were revalued as at 30 June 1999 in accordance with progressive revaluation policy stated at Note 2.11 and was completed by Mr W Philpott CPV, an employee of the Australian Valuation Office, a body independent to the Commission. Plant and equipment was revalued at 30 June 1998. The 'deprival method of valuation' was adopted as the basis of valuation, which was estimated by calculating the current written down replacement cost of assets that would be replaced.

Table C Summary of valuation adjustments as at 30 June 2002

	2001-02 (\$'000)	2000-01 (\$'000)
Valuation		
Cost adjustment	–	–
Depreciation adjustment	–	–
Net increment (decrement) on revaluation	–	–

Note 8 Provisions and Payables

Note 8A – Employee provisions

	2001-02	2000-01
	(\$'000)	(\$'000)
Salaries and wages	401	380
Annual leave	2,290	2,192
Long service leave	3,619	3,530
Superannuation	58	53
Other	–	–
Total	<u>6,368</u>	<u>6,155</u>
Current	3,248	3,125
Non-Current	3,120	3,030

Note 8B – Suppliers

	2001-02	2000-01
	(\$'000)	(\$'000)
Trade creditors	<u>415</u>	<u>181</u>
	<u>415</u>	<u>181</u>

Note 9 Equity

	Accumulated Results	Asset Revaluation Reserve	Capital	Total Equity	
	2001-02	2001-02	2001-02	2001-02	2000-01
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance 1 July	(1,424)	96	1,686	358	213
Net surplus (deficit)	(548)	–	–	(548)	194
Capital use charge	–	–	–	–	(49)
Balance at 30 June	<u>(1,972)</u>	<u>96</u>	<u>1,686</u>	<u>(190)</u>	<u>358</u>

Transactional banking arrangements introduced from 1 July 1999 enabled agencies to manage their surplus cash balances and earn interest on them. Reviews are being conducted by the Department of Finance and Administration with each agency to determine whether interest earned to 30 June 2002 was consistent with the Government's Budget-neutrality condition for the arrangements. However, as at the date of signing these financial statements, no decision had been made by the Government of the amount, if any, of the distribution of equity to be made to it by the Productivity Commission.

Note 10 Cash Flow Reconciliation

	2001-02 (\$'000)	2000-01 (\$'000)
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	64	80
Statement of Financial Position items comprising above cash: 'Financial Asset – Cash'	64	80
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus (deficit)	<u>(548)</u>	<u>194</u>
Depreciation/Amortisation	937	833
Loss (profit) on sale of non-current assets	35	1
Write down of assets	9	–
Decrease (increase) in receivables	(43)	(41)
Decrease (increase) in prepayments	(164)	(24)
Increase (decrease) in employee liabilities	213	799
Increase (decrease) in suppliers liability	234	(164)
Increase (decrease) in other liabilities	103	(10)
Increase in Equity	<u>–</u>	<u>–</u>
Net cash provided (used) by operating activities	<u>776</u>	<u>1,588</u>

Note 11 Appropriations

Annual appropriations for outputs

	2001-02 (\$'000)	2000-01 (\$'000)
Balance available at 1 July	3,880	1,728
Add: Balance of Resource Agreement appropriated as equity in 2000-01	–	1,686
Add: Appropriation Act No 1 – s6 – basic appropriations (budget)	22,605	22,148
Add: FMA Act appropriations		
s30A appropriations (GST recoverables)	452	352
s31 appropriations	<u>457</u>	<u>464</u>
Total appropriations available for year	27,394	26,378
Cash outflows during the year	<u>23,230</u>	<u>22,498</u>
Balance of appropriations held for future cash outputs at 30 June	4,164	3,880

Note 12 Reporting of Outcome

Note 12A – Reporting by outcome

	Budget (\$'000)	Actual (\$'000)
Net cost to budget outcome (Operating result before revenue from government)	22,619	23,189
Total assets deployed as at 30 June 2002	6,639	6,726
Net assets deployed as at 30 June 2002	(213)	(190)

Note 12B – Major revenues and expenses by output group

	Output Group 1		Output Group 2		Output Group 3	
	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)
Operating revenues						
Revenues from government	8,599	7,196	3,210	3,156	2,149	2,062
Sales of goods and services	90	67	33	29	23	19
Other non-taxation revenues	88	87	33	39	22	25
Total operating revenues	8,777	7,350	3,276	3,224	2,194	2,106
Operating expenses						
Employees	6,552	5,272	2,440	2,385	1,737	1,658
Suppliers	2,064	1,754	777	693	412	348
Depreciation and amortisation	352	260	131	118	94	82
Other	17	–	6	–	4	–
Total operating expenses	8,985	7,286	3,354	3,196	2,247	2,088

	Output Group 4		Output Group 5		Total	
	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)
Operating revenues						
Revenues from government	285	255	8,362	9,479	22,605	22,148
Sales of goods and services	3	3	88	88	237	206
Other non-taxation revenues	3	3	85	115	231	269
Total operating revenues	291	261	8,535	9,682	23,073	22,623
Operating expenses						
Employees	230	201	6,482	7,360	17,441	16,876
Suppliers	54	48	1,892	1,876	5,199	4,719
Depreciation and amortisation	12	10	348	363	937	833
Other	1	–	16	1	44	1
Total operating expenses	297	259	8,738	9,600	23,621	22,429

As indicated in Note 1, the Commission has one outcome, which consists of 5 outputs:

Output 1 – Government commissioned projects;

Output 2 – Performance reporting and other services to government bodies;

Output 3 – Regulation review activities;

Output 4 – Competitive neutrality complaints activities; and

Output 5 – Supporting research and activities and annual reporting.

Revenues and expenses have been allocated to outputs based on the direct costs of the activities undertaken together with a proportion of corporate overheads.

The Commission's assets and liabilities cannot be attributed to specific outputs.

Note 13 Remuneration of Executives

The amounts of total remuneration received/receivable by Holders of Public Office and Senior Executive Service staff, where such amounts exceed \$100,000 during the year, are shown in the table.

Total remuneration includes salary, superannuation, performance pay, accrued leave and other package components such as executive vehicles.

	2001-02	2000-01
	No.	No.
Total remuneration		
\$100,000 to \$110,000	–	1
\$110,000 to \$120,000	1	–
\$120,000 to \$130,000	2	1
\$130,000 to \$140,000	1	–
\$140,000 to \$150,000	3	6
\$150,000 to \$160,000	3	3
\$160,000 to \$170,000	4	6
\$170,000 to \$180,000	1	–
\$180,000 to \$190,000	4	–
\$190,000 to \$200,000	1	2
\$200,000 to \$210,000	–	1
\$210,000 to \$220,000	1	2
\$220,000 to \$230,000	1	1
\$230,000 to \$240,000	1	2
\$240,000 to \$250,000	2	–
\$260,000 to \$270,000	1	–
	26	25
Aggregate amount of total remuneration of executives shown above	\$4,583,872	\$4,263,770
Aggregate amount of performance pay during the year to executives shown above	\$281,858 ¹	\$198,754 ¹
Aggregate amount of separation and redundancy payments during the year to executives shown above	\$262,464	–

¹ Included in total remuneration

Note 14 Contingencies

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities that would have any material effect on the financial statements.

Note 15 Act of Grace Payments and Waivers

Note 15A – Act of grace payments

No act of grace payments were made during the reporting period.

Note 15B – Waiver of rights to payment of moneys

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

Note 16 Average Staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	2001-02	2000-01
	No	No
Average staffing level	201	200

Further information on staffing levels is provided in appendix A of the Annual Report.

Note 17 Financial Instruments

Note 17A – Terms, conditions and accounting policies

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
Financial Assets	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The Commission maintains its bank accounts with the Reserve Bank of Australia at call. Monies in the Commission's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have been fixed at 2% for the year. Interest is paid quarterly.
Investments	Investments are recognised at the nominal amounts. Interest is credited to revenue as it accrues.	The Commission invests funds with the Reserve Bank of Australia and interest is earned on the investment. Rates averaged 4.5% for the year. Interest is paid on maturity.
Receivables for goods and services	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with entities external to the Commission. Credit terms are net 30 days. (2000-2001: 30 days).
Financial Liabilities	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Lease incentives	The lease incentive is recognised as a liability on receipt of the incentive. The amount of liability is reduced on a straight-line over the life of the lease by allocating lease payments between rental expense and the reduction of the liability.	The Commission received a fitout incentive on entering a property operating lease in September 1996. Lease payments are made monthly.
Trade creditors	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 17B – Interest rate risk

2001-2002

Financial Instrument	Notes	Floating Interest Rate 2001-02 (\$'000)	Fixed Interest Rate 2001-02 (\$'000)	Non-Interest Bearing 2001-02 (\$'000)	Total 2001-02 (\$'000)	Weighted Average Effective Interest Rate 2001-02 (%)
Financial assets						
Cash at bank			64	–	64	2.0
Investments – Term deposit			4,100		4,100	4.5
Receivables	6	–	–	107	107	n/a
Total Financial assets		–	4,164	107	4,271	
Total Assets					6,726	
Financial liabilities						
Suppliers				415	415	n/a
Other				133	133	n/a
Total Financial liabilities				548	548	
Total Liabilities					6,916	

2000-2001

Financial Instrument	Notes	Floating Interest Rate 2000-01 (\$'000)	Fixed Interest Rate 2000-01 (\$'000)	Non-Interest Bearing 2000-01 (\$'000)	Total 2000-01 (\$'000)	Weighted Average Effective Interest Rate 2000-01 (%)
Financial assets						
Cash at bank			80	–	80	2.0
Investments – Term deposit			3,800		3,800	5.8
Receivables	6	–	–	64	64	n/a
Total Financial assets		–	3,880	64	3,944	
Total Assets					6,773	
Financial liabilities						
Suppliers				181	181	n/a
Other				30	30	n/a
Total Financial liabilities				211	211	
Total Liabilities					6,415	

Note 17C – Net fair values of financial assets and liabilities

The net fair values of cash and non-interest-bearing financial assets, lease incentive liability and trade creditors equate to their carrying amounts.

Note 17D – Credit risk exposures

The Commission's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Commission has no significant exposures to credit risk.

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