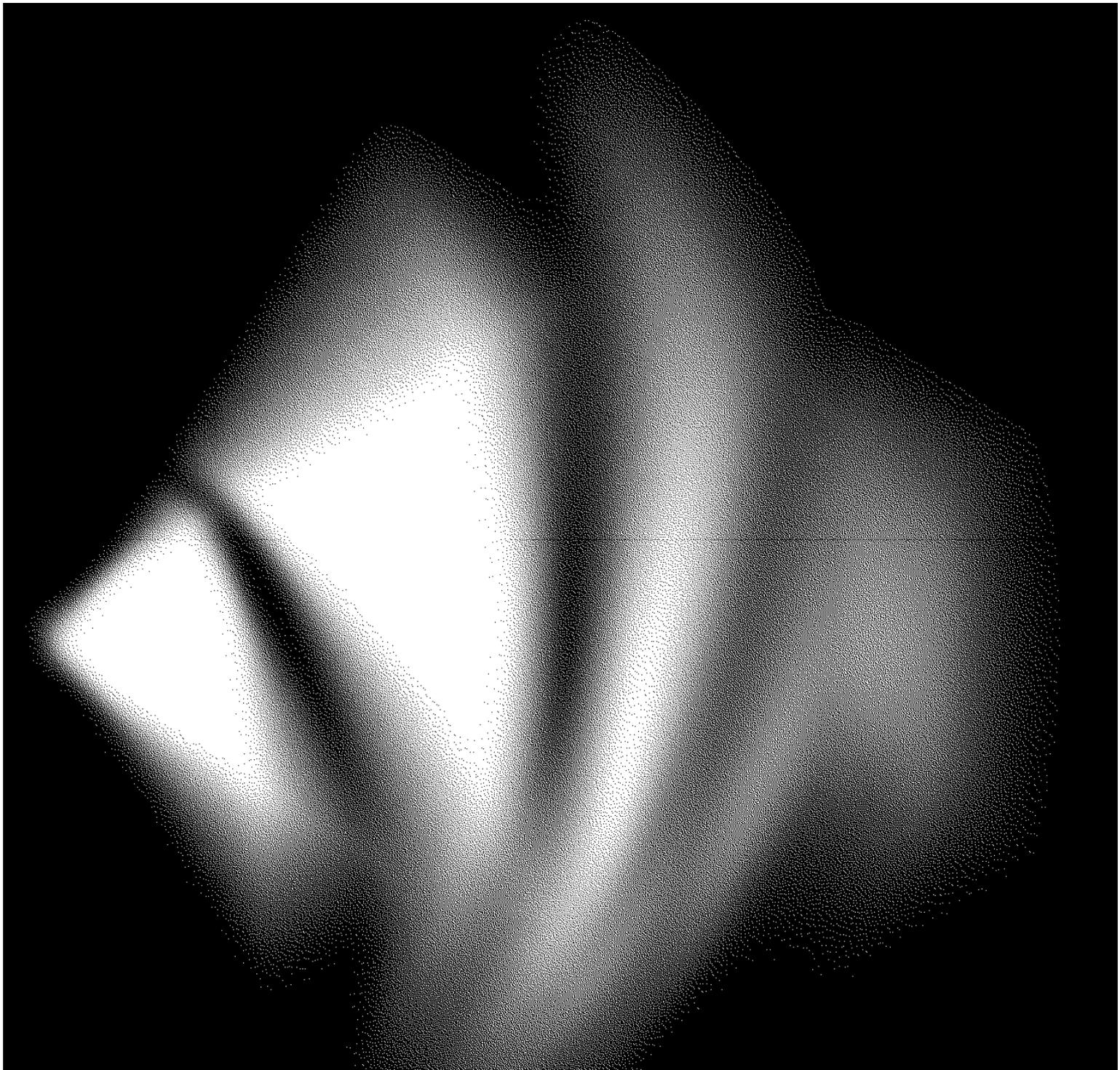




Australian Government
Productivity Commission

Annual Report 2006-07

Productivity
Commission
Annual Report Series



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ISSN 1035-5243

ISBN 978-1-74037-239-8

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An appropriate citation for this paper is:

Productivity Commission 2007, *Annual Report 2006-07*, Annual Report Series, Productivity Commission, Canberra.

JEL code: D

The Productivity Commission

The Productivity Commission, an independent agency, is the Australian 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 consideration 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.



23 NOV 2007

The Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2006-07. The report is prepared in accordance with section 10 of the *Productivity Commission Act 1998*. The Commission's Act requires that a copy of this report be tabled within 15 sitting days of each House of Parliament after the day of receipt of the report.

Yours sincerely

Gary Banks
Chairman

Neil Byron
Commissioner

Gary Potts
Commissioner

Robert Fitzgerald
Commissioner

Judith Sloan
Commissioner

Steven Kates
Commissioner

Philip Weickhardt
Commissioner

Angela MacRae
Commissioner

Michael Woods
Commissioner

Chairman and Commissioners



Philip Weickhardt and Gary Banks (Chairman)



Steven Kates and Mike Woods



Robert Fitzgerald and Angela MacRae



Judith Sloan, Gary Potts and Neil Byron

Acknowledgments

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

Contents

Abbreviations	IX
CHAPTERS	
1 Enhancing labour force participation: issues and challenges	1
How much scope to increase participation rates?	3
The potential gains from increased participation	9
Challenges in realising better labour force participation outcomes	10
Summing up	23
2 Review of Commission activities and performance	25
Overview	26
Year in review	30
Transparent and consultative processes	36
Feedback on the Commission’s work	44
Policy and wider impacts	47
Associated reporting	53
APPENDICES	
A Management and accountability	57
B Program performance	91
C Government commissioned projects	163
D Competitive neutrality complaints	187
E Supporting research and related activities	189
F Publications	205
G Financial statements	211
Compliance index	88

Attachments

A1	Commissioner and employee statistics	76
A2	Fraud control certificate	79
A3	Commonwealth Disability Strategy: outcomes against performance indicators	80
A4	Consultancies	83
A5	Freedom of Information Statement	85
A6	Compliance index	88

References	253
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Index	265
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BOXES

1.1	ABS measures of underutilised labour	4
1.2	Work incentives of older workers	17
2.1	Commission publications in 2006-07	27
2.2	Compliance with regulatory impact analysis requirements in 2006-07	35
2.3	Open and transparent processes are integral to the Commission's work	38
2.4	Support for Commission activities: some recent examples	46
B.1	Performance indicators for Commission outputs	95
B.2	The longer term influence of Commission reports	97
B.3	Charter for the Office of Best Practice Regulation	142
B.4	Guidance material issued by the OBPR in 2006-07	145
B.5	Supporting research and annual reporting publications, 2006-07	155
B.6	Supporting research projects underway at 30 June 2007	156

FIGURES

1.1	Trends in labour market inactivity, 1910-11 to 2005-06	6
1.2	Differences between countries in selected participation rates	8
1.3	Labour force engagement of people with disabilities	19
2.1	References on hand	30
2.2	Website hits	44
2.3	Mentions of the Commission in Australian parliaments, 2002-03 to 2006-07	51

A.1	Productivity Commission structure and senior staff, 30 June 2007	58
B.1	Productivity Commission outcome/output framework 2006-07	92
B.2	Comparability of indicators	132

TABLES

A.1	Financial and staffing resources summary	60
A.2	Performance bonuses payable for 2006-07	67
A.3	Expenditure on consultants: 2002-03 to 2006-07	72
B.1	Use of Commission outputs in recent parliamentary committee reports	102
B.2	Parliamentary Library use of Commission outputs in 2006-07	106
B.3	Program of public inquiries and other government-commissioned projects	114
B.4	Public inquiry and other commissioned project activity, 2002-03 to 2006-07	115
B.5	Cost of public inquiries and other commissioned projects completed in 2006-07	116
B.6	Direct administrative expenditure on public inquiries and other government-commissioned projects, 2002-03 to 2006-07	116
B.7	Impact of Commission inquiry reports on policy making	122
B.8	Indicators reported on a comparable basis, 2007 Report	133
B.9	Australian Government regulatory and regulatory impact analysis activities, 2002-03 to 2006-07	143
B.10	RIS/regulatory impact analysis training evaluation, 2002-03 to 2006-07	147
B.11	Formal competitive neutrality complaints, 2002-03 to 2006-07	150
C.1	Stage of completion of commissioned projects and government responses to Commission reports	164
E.1	Speeches and presentations by the Chairman, Commissioners and staff, 2006-07	198
E.2	Visits from international organisations and foreign delegations, 2006-07	203

Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
APS	Australian Public Service
COAG	Council of Australian Governments
DSP	Disability support pension
EMTRs	Effective marginal tax rates
GDP	Gross domestic product
GTEs	Government trading enterprises
IMF	International Monetary Fund
NRA	National Reform Agenda
OBPR	Office of Best Practice Regulation
OECD	Organisation for Economic Cooperation and Development
OHS	Occupational health and safety
ORR	Office of Regulation Review
PC	Productivity Commission
SES	Senior Executive Service
R&D	Research and development
RIS	Regulation impact statement
WTO	World Trade Organization

1 Enhancing labour force participation: issues and challenges

Policies to raise labour force participation can potentially make an important contribution to Australia's future prosperity. A number of indicators point to significant opportunities for improving participation rates in Australia. However, it is important not to view participation as an end in itself. The policy objective is to improve overall community wellbeing, having regard to people's preferences and the costs and benefits of any reform initiatives (including the spillover effects of changes in participation rates). Policy measures in a number of areas, at both the Commonwealth and State/Territory levels, impact on participation decisions. Sometimes these measures unintentionally discourage or impede participation. Developing effective policy responses to tackle such impediments raises a number of challenges, including the need to take explicit account of broader policy objectives and trade-offs, to understand the characteristics of the target group(s) relative to the existing workforce and to realistically assess the timeframe for benefits to materialise.

Australia's economic performance over the past decade and a half stands out not only by historical standards, but also among OECD countries. With 16 years of continuous output growth, Australia has achieved substantial increases in average household incomes. Moreover, unemployment is currently at its lowest rate since the early 1970s and labour force participation is at a post-WWII high.

Notwithstanding this almost unprecedented economic success — in part reflecting wide-ranging economic reforms since the early 1980s — governments have recognised that there is both a need and the potential for further improvements to Australia's economy (see, for example, COAG 2006a).

As is now well established, the ageing of Australia's population will simultaneously diminish per capita income growth through reduced growth in labour supply and substantially increase future demands on our health and aged care services. In addition, as current debates about global warming and water security make clear, Australia faces significant additional costs if it is to improve environmental outcomes and encourage a more sustainable pattern of resource use. Over and above

these domestic pressures are the ongoing imperatives for improved performance in an increasingly integrated and competitive global economy.

These challenges put a premium on addressing remaining constraints to realising Australia's productive potential and thereby improving living standards into the future. The National Reform Agenda (NRA), endorsed by the Council of Australian Governments (COAG) in February 2006, is directed at progressing a wide-ranging and ambitious program of reform to achieve these ends (COAG 2006a).

In previous annual reports, the Commission has stressed the importance of pursuing reforms that would enhance Australia's productivity, as the major driver of per capita income growth. The *Intergenerational Reports* (Australian Government 2002, 2007a) and the Commission's own study for COAG on the *Economic Implications of an Ageing Australia* (PC 2005), emphasise that improving workforce participation can also make an important contribution to Australia's future prosperity — potentially offsetting much of the impact of population ageing — and this objective is an integral part of the NRA.

In assessing the scope to increase labour force participation, it is important not to view participation as an end in itself. For example, many people in Australia work until they have accumulated sufficient resources for a comfortable retirement. In contrast, labour force participation of the elderly is high in poor countries because people there have no alternative but to continue working.

There are reasons for some Australians preferring not to participate in the workforce, or wishing to lessen their involvement, that are entirely consistent with community wellbeing. They include the benefits from participating in education and training; caring for children and older family members; undertaking volunteering activities; retirement; and, more generally, enjoying leisure activities. Although those involved in these activities are typically recorded as 'economically inactive', the activities generally give rise to socially valuable outputs and contribute to the growth of the economy over the medium to longer term. For example, the ABS (2001) has estimated that the value of unpaid child care was equivalent to around \$20 billion in 1997 (or 4 per cent of GDP). Similarly, volunteering has been estimated to generate economic value in the range of \$11–\$42 billion (PC 2005). And time out for education and training can be amply repaid in higher productivity.

People's choices are affected by incentives that determine the relative reward from working compared with other activities. The resulting choices often have consequences which spill over to the wider community. These spillovers can have quite important impacts on the community. For example, some of the benefits of higher participation include reduced poverty and inequality, greater social harmony and reduced crime, as well as lesser burdens on the charitable sector and social

welfare budgets, and higher tax receipts to support the provision of government services like education and health.

Overall, the policy objective is to improve community wellbeing having regard to peoples' preferences as well as any relevant spillover effects to society arising from individuals' decisions. From this broader economic perspective, reform is about promoting efficient choices that yield outcomes in the longer term interests of the community as well as the individuals concerned. In particular, it is important to ensure that participation decisions are not unnecessarily distorted by welfare and tax arrangements or by other rules and regulations.

In this annual report, the Commission looks more closely at the scope to increase Australia's labour force participation rates and the potential gains from doing so. The chapter then focuses on some key policy areas to illustrate the challenges in developing effective policies to improve participation outcomes.

How much scope to increase participation rates?

Various benchmarks can be used to provide a broad indication of the scope for Australia to raise its labour force participation rates. These include ABS measures of the 'underutilisation' of labour resources and trends in labour market inactivity over time, as well as international comparisons of labour force participation rates. Each of these suggests that there is scope to increase Australia's labour force participation rates. Moreover, there is good evidence that such an outcome would be consistent with some peoples' strong preferences. That said, more analysis is needed to determine whether the implied increases are achievable and appropriate.

Underutilisation of labour

The degree to which the available supply of labour is efficiently used is an important economic and social issue. The unemployment rate, while widely used, is an incomplete measure of labour underutilisation. Reflecting this, the ABS has developed two broader measures for this purpose: the labour force underutilisation rate (which covers the unemployed and underemployed) and the extended labour force underutilisation rate (which covers underemployed workers; the unemployed; and two groups of people marginally attached to the workforce) (box 1.1).

Box 1.1 **ABS measures of underutilised labour**

Underutilised labour is made up of three components: underemployed workers, unemployed people and marginally attached people.

Underemployed workers

Underemployed workers are employed people who want, and are available for, more hours of work than they currently have, including:

- people employed part-time who want to work more hours and are available to start work with more hours, either in the reference week or in the four weeks subsequent to the labour market survey (*part-time unemployed workers*); and
- people employed full-time who worked part-time (less than 35 hours) in the reference week for economic reasons (such as, being stood down or insufficient work being available) (*full-time underemployed workers*). It is assumed that these people wanted to work full-time in the reference week and would have been available to do so.

Unemployed people

Unemployed people are defined to include people aged 15 years and over who were not employed during the reference week, and:

- had actively looked for work at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or
- were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if a job had been available.

Marginally attached people

People not in the workforce can be divided into those who are marginally attached to the workforce, and those who are not. People who are marginally attached to the workforce may satisfy some, but not all, of the criteria required to be classified as unemployed. Those with characteristics similar to the unemployed are classified by the ABS as having a relatively strong attachment to the workforce. They are made up of two groups — people actively looking for work, but not available to start work in the reference week, but available to start work in four weeks; and discouraged job seekers — those who indicate that they want to work and could start work within four weeks if offered a job, but who are not actively looking for work for reasons directly associated with the labour market. The main reasons reported by discouraged job seekers for not looking for work are: they believe they would not find a job because they would be considered too old by employers, there were no jobs in their area or line of work or they believe they lack the necessary skills or experience.

Other individuals in this category have a weaker attachment to the workforce. For instance, some individuals may want to work and be available to work, but are not actively looking for work because they are looking after a family member or children. Hence, the availability of these individuals is conditional on a change in their personal circumstances.

Source: ABS (2006a, 2007).

In September 2006, over 1 million Australians were classified as unemployed or underemployed, representing 9.8 per cent of those constituting the potential labour supply. Of course, the perceived extent of labour underutilisation is considerably lessened when the quantity of extra hours potentially on offer (that is, the extra volume of labour available) is used rather than a simple head count — the underutilisation rate falls from 9.8 to 5.9 per cent. Even so, these figures highlight that a sizeable number of Australians who are currently not working would like to do so, and that many others would like to work more than they currently do.

- The September 2006 data show that 524 600 people were *unemployed*. The majority (almost 70 per cent) were seeking full-time work. Those aged 15-24 years were the largest group of unemployed people — some 40 per cent — and had the highest proportion of people seeking part-time employment.
- Some 544 600 were *underemployed* in the sense that they indicated that they wanted and were available to work more hours than they were actually working. Reflecting the prevalence of part-time work amongst women, they accounted for nearly 57 per cent of underemployed workers. Amongst part-time workers, around 73 per cent of men said that they would have preferred full-time work compared with around 50 per cent of women.

In September 2006, nearly 14 per cent of Australians aged 15 years and over and not in the workforce (751 600 people) were classified as having a *marginal attachment to the workforce* (box 1.1). Amongst these, 93 400 people (or around 12 per cent) were classified as having a *strong marginal attachment to the workforce* — sharing similar characteristics to those of the unemployed and, arguably, close enough to be effectively classified as unemployed. Most of these potential workforce participants were women — nearly 62 per cent — and most (70 per cent) held a strong preference for part-time work.

Australia's rate of labour underutilisation, using either of the broader ABS measures, has declined considerably since the early 1990s, partly in response to the strong growth of the economy. Much of this decline reflects a fall in the unemployment rate.

The loss of output arising from frustrated job seekers and those available and willing to work or to work more hours potentially represents a waste of the nation's economic potential. Reflecting this, governments around the world have become increasingly focused on lessening barriers to workforce participation.

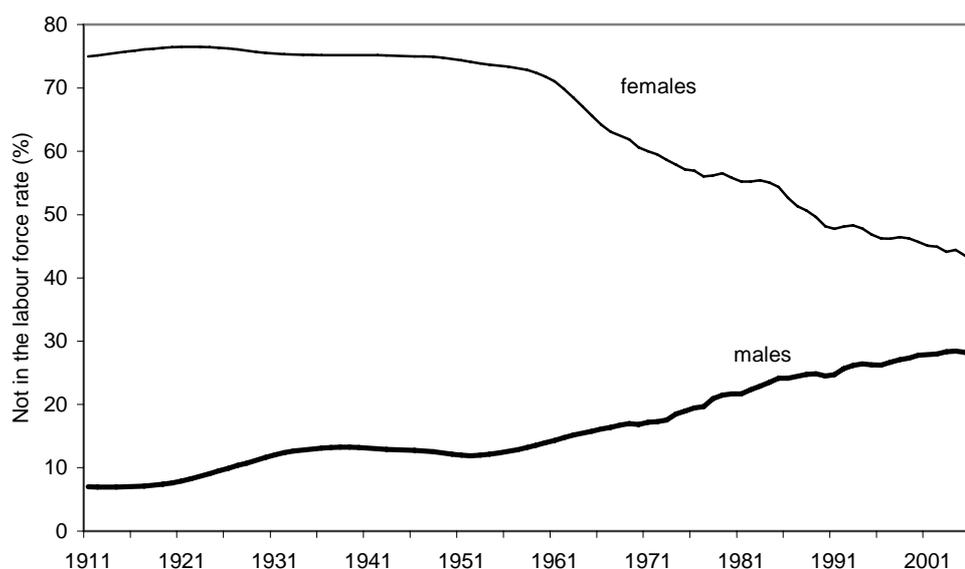
Trends in labour market ‘inactivity’

Measures of the extent of underutilisation of labour do not fully capture the scope for raising Australia’s labour force participation rate. Also relevant are trends in labour market inactivity over time (that is, changes in the number of people outside the labour force — the economically ‘inactive’). Across Australia’s labour market over the last century there have been disparate trends in labour market inactivity, including on a gender basis (Lattimore 2007).

For example, since the late 1950s, the likelihood of a woman not being in the labour force has nearly halved, reflecting a rapid rise in the labour force participation rate for females. In contrast, there has been a four-fold increase in the propensity of males to be outside the labour force, albeit from a low base (figure 1.1). About one quarter of the increase in male inactivity since 1910-11 can be attributed to population ageing, with the remainder reflecting trend changes in age-specific inactivity rates.

As observed earlier, some labour market inactivity is desirable, involving activities consistent with increasing overall community wellbeing. Some inactivity reflects factors which make participation in the labour market difficult or impractical, such as low levels of education/skills, limited work experience and injury/illness. Some of these influences or causes of inactivity may be amenable to change through

Figure 1.1 Trends in labour market inactivity, 1910-11 to 2005-06^a



^a Labour market inactivity rates are defined as the share of civilians of a given age (15 years and over) not in the labour force (that is, not in a job or actively seeking one). Note that early data are based on cubic splines fitted to the data.

Data source: ABS labour force data and interpolation by the Productivity Commission for gaps in early series.

‘corrective’ policy actions in areas like education and training, health promotion and disease prevention. Hence, an understanding of the scope to lessen labour market inactivity requires a comparison of outcomes under existing inactivity rates with a realistic counterfactual that takes account of work preferences and whether potential changes are achievable, as well as being appropriate from a community wellbeing perspective.

How does Australia compare?

International comparisons of labour force participation rates are often used as a reference point to identify whether there is scope to raise participation in Australia. Such comparisons on their own do not, however, provide a basis for judging whether closing any participation gap would enhance community wellbeing. More information is required to make such an assessment, including knowledge of peoples’ underlying preferences for work and the extent of any spillover effects, as well as judgements about the influence of inter-country differences in policy settings on observed participation rates and the respective merits of policies considered to be influential in contributing to a higher participation rate.

Australia’s overall labour force participation rate has increased over the last 25 years — from 61.3 per cent in 1980 to 64.4 per cent in 2005. Data published by the OECD reveal that while Australia’s aggregate participation rates for males and females were above the OECD average in 2005, this hides relatively low participation rates for three broad demographic groups: males aged 25 to 54 years; women aged 25 to 44 years; and males and females aged 55 to 64 years.

Closer analysis of OECD data by Commission researchers indicates that some of the observed differences in participation rates arise from variations in statistical practices between countries (Abhayaratna and Lattimore 2006). The researchers undertook an analysis of the impact on participation rates of key statistical differences in the handling of defence personnel, institutionalised populations, missing data for some age brackets and paid maternity leave across OECD countries. While Australia’s relative position rose somewhat when these statistical differences were taken into account, significant differences in adjusted participation rates for key age groups across the workforce remained.

- For males aged 25 to 54 years, Australia’s ranking rose slightly from 25th to 23rd.
- For females aged 25 to 44 years, Australia’s adjusted ranking was 20th compared with a published ranking of 23rd.
- However, for people aged 55 to 64 years, Australia’s rank remained at 14th.

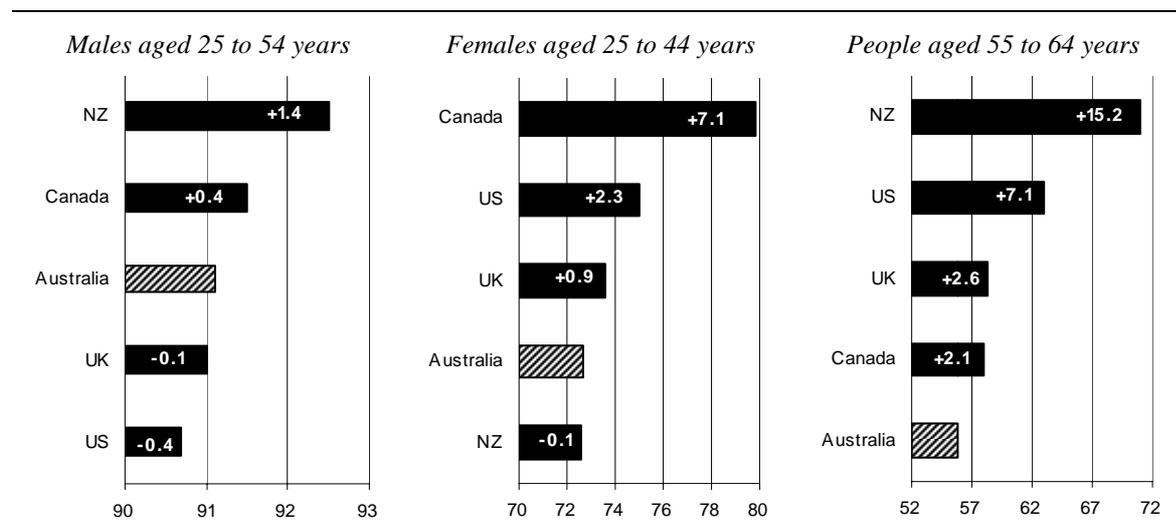
In aggregate, workers in these three labour market groups accounted for about 70 per cent of Australia's labour market in 2005.

Replicating the (adjusted) labour force participation rates for the highest-performing broadly-comparable OECD country for each of these age groups, points to the *potential* for a significant increase in Australia's aggregate labour force participation rate. Countries which are generally seen as being broadly comparable to Australia include Canada, New Zealand, the United Kingdom and the United States. On this basis, the potential increases in participation rates from closing the participation gap with the highest performing comparable OECD country are as follows:

- for males aged 25 to 54 years, an increase in participation to New Zealand's rate would increase the workforce by around 60 000
- for females aged 25 to 44 years, an increase to Canada's rate would increase the workforce by some 210 000
- for people aged 55 to 64 years, an increase to New Zealand's rate would expand the workforce by around 330 000 (figure 1.2).

In all, closing these observed gaps would see the number of people participating in the Australian workforce growing by some 600 000 persons, raising Australia's aggregate participation rate by almost 4 percentage points. Whether realising such an increase is achievable or appropriate would of course require further investigation, including an assessment of the influence of different policy settings on participation decisions.

Figure 1.2 Differences between countries in selected participation rates
Per cent



Source: Derived from Abhayaratna and Lattimore (2006). Data for 2005.

The potential gains from increased participation

Assessing the potential economic gains from policy initiatives directed at increasing labour force participation is far from straightforward. In December last year, following a request from governments, the Commission reported to COAG on the potential economic and fiscal impacts of the NRA, including the gains potentially available from achieving higher workforce participation and labour productivity (PC 2006b). This proved to be a challenging exercise, due to lack of detail about the nature and extent of reforms associated with the NRA and a lack of evidence on workforce and productivity changes that could be achieved. Consequently, the estimates should be seen merely as exploratory projections of what is potentially achievable, rather than as forecasts of what necessarily would be achieved over the life of the NRA. Moreover, the effects in some key areas were calculated gross of costs of the required policy interventions: not all would necessarily pass a benefit-cost test.

The NRA embraces three reform streams — competition, regulation and human capital. The human capital stream is directed at increasing the effectiveness of the health system in achieving health outcomes, and at improving workforce participation and labour productivity through specific initiatives in the health, education and training, and work incentive areas. In seeking to quantify the workforce participation and productivity effects the Commission had regard to: international comparisons of participation rates (like those outlined above); various forms of supporting analysis to try to clarify the scope for change; and demographic modelling to isolate the likely contributions from the different elements of the human capital stream.

Analysis of the potential maximum gains available from the human capital stream suggests that full implementation of policy measures consistent with the intent of the NRA could generate significant (gross) economic gains for Australia over the next 25 years. In particular, an increase in workforce participation of around 4.9 percentage points could be possible — potentially offsetting the projected impact of ageing on the aggregate participation rate over this period. Some other key findings from the Commission's analysis included:

- Most of the potential increase in the workforce is likely to result from changes to work incentives. Many of the policy levers in this area are a Commonwealth responsibility and include family tax arrangements, disability support pensions and superannuation.
- Fully implementing the health and education and training elements of the NRA could also potentially raise the level of workforce productivity by

one percentage point over the next 25 years. Health, education and training are shared Commonwealth, State and Territory responsibilities.

- Projected higher workforce participation and productivity could raise effective labour inputs substantially — quality-adjusted hours worked could rise by around 8 per cent from levels that would otherwise apply.
- Projected higher participation levels are estimated to raise GDP by around 6 per cent, while higher productivity of incumbent workers is estimated to raise GDP by nearly 3 per cent — after the effects of the reforms bite and following a period of adjustment.
- With higher GDP, real per capita household disposable income and consumption, as well as government revenues, would also increase (PC 2006b).

These estimates of the impact of changes in workforce participation and government's fiscal balances focus on the maximum potential changes in *market* activities (that is, those arising from changes in participation in paid employment). As such they do not take into account the impact of change on the non-market activities of households (such as reductions in unpaid child care, other carer activity and volunteerism) and the direct household and government costs of achieving higher workforce participation. And, to repeat, the estimates did not net out the costs of the programs (eg for health promotion/disease prevention); nor account for any consequent program savings (eg for disability support pensions).

A key challenge in identifying the potential for policy changes to promote better (that is, welfare enhancing) workforce participation outcomes is the need to identify the benefits and costs of policies directed at lessening or removing impediments to individuals realising their work preferences.

Challenges in realising better labour force participation outcomes

Past research, including by the Commission, has identified a wide range of influences on people's workforce participation decisions — both about whether to work and the number of hours worked. Policy settings across a diverse number of areas impact on participation decisions. They include taxation, superannuation, aged and disability support pensions, child care payments, workforce regulation and education and training. On occasion, these policy settings inadvertently discourage or impede participation. This implies that an effective approach to the challenge of realising better participation outcomes will require a broadly-based and continuing policy response.

Potential policy actions can be grouped into three broad areas:

- improving the *capacity* of people to work
- improving *incentives* to work
- creating more *flexible* institutional arrangements.

Governments have already undertaken a number of policy initiatives over the last decade or so in each of these areas. For example, to improve people's capacity to work, the Australian Government has expanded funding for health promotion and disease prevention and has introduced various measures directed at improving education and training outcomes. In terms of work incentives, it has reduced personal income tax, modified family benefit tax arrangements, modified various aspects of the income support system (including the welfare-to-work changes), and altered the superannuation system. It has also made changes to workplace relations regulations to improve the flexibility of the labour market and expanded funding to improve access to affordable child care.

The following discussion draws on a selection of policy measures, covering the three broad areas mentioned above, to illustrate some of the challenges in developing effective policy initiatives to improve participation outcomes.

Improving the capacity of people to work

Health and education are crucial contributors to 'human capital' — the changing bundle of skills, knowledge and capabilities that each individual possesses. Human capital is central to people's wellbeing and their capacity to engage with the community. It is also a key determinant of their labour market experience, because it is associated with their productivity and, hence, the demand for their labour. There are some important interdependencies between health and education, since improved educational outcomes generally make a positive contribution to peoples' health status.

Health promotion and disease prevention

Poor health affects the quality of peoples' lives and, beyond this, can lead to periods out of work, reduced labour productivity and early retirement or premature death. This is unavoidable in many cases, but the incidence and severity of some diseases and illnesses can be significantly lowered by reducing contributing risk factors, including lifestyle choices.

Health promotion and disease prevention initiatives form a component of the NRA, as agreed to by COAG in February 2006, covering seven chronic diseases — cardiovascular, cancer, serious injury, depression and anxiety, type 2 diabetes, end-stage renal disease and musculoskeletal (COAG 2006b).

Labour force participation rates are consistently significantly lower for people with chronic diseases. The gross participation losses associated with several identified chronic diseases is estimated by the Commission to have been around 400 000 full-time equivalent employees or 5.8 per cent of the working-aged population in 2005. The largest estimated participation losses (including informal carers) are associated with mental illness. The participation rates for those reporting mental illness are 29 percentage points lower than for others (PC 2006b).

Determining how much of the losses related to chronic disease could be avoided through new cost-effective health promotion/disease prevention initiatives is contentious. Indeed, there are a number of challenges associated with trying to link improved health outcomes to such initiatives:

- many factors influence health and it is not straightforward to isolate the effects of prevention initiatives
- there are typically long time lags before improvements stemming from such initiatives become evident
- results for small controlled trials may not be readily replicated in the broader community
- the proportion of chronic disease that may be avoidable through modifying risk factors and early intervention measures varies markedly across diseases.

Research by the Commission, taking these factors into account, suggests that while potentially achievable reductions in the prevalence of chronic disease may be significant, the workforce-related effects are likely to be relatively small in aggregate, although significant for some groups. For example, a relatively high proportion of the current disease burden for mental illness and type 2 diabetes affects people of working age (PC 2006b).

An ‘outer-envelope’ scenario, designed to illustrate the potential (maximum) gains from new health promotion/disease prevention initiatives, suggests that by 2030, such initiatives could expand the workforce by 175 000 full-time equivalent employees — representing an overall participation increase of around 0.6 of a percentage point. The estimated potential gain, ignoring program and implementation costs and potential savings in acute care costs, comprises additions to the workforce arising from reduced incapacity and mortality, and an associated reduction in the number of carers. The largest potential participation-related gains

are expected to be in the areas of mental illness, type 2 diabetes and cardiovascular disease (PC 2006b).

Although COAG has yet to determine the nature and scale of intended NRA health promotion/disease prevention initiatives, it has settled on a disease-by-disease approach to developing specific initiatives and has nominated type 2 diabetes as an initial priority (COAG 2006b). While this approach has obvious practical advantages, it also has drawbacks. Decisions about overall program design and resourcing, including where to focus resources and the appropriate mix of promotion/prevention strategies, need to be formulated having regard to the full range of opportunities for lessening the impacts of chronic diseases, rather than on a disease by disease basis.

Cost-effective spending on health promotion and disease prevention could be expected to generate significant cost savings to other areas of the health budget over time through an associated reduction in acute-care costs. Reductions in the burden of chronic disease would clearly also yield other benefits, the most important of which is an improvement in the quality of life of the affected individuals.

Education and training

Improvements to education and training aimed at equipping more people with the skills required to participate in the workforce, are another important element of the human capital stream of the NRA. Four areas have been targeted: early childhood development, literacy and numeracy, transitions from school to further education or work, and adult learning (COAG 2006a).

Literacy and numeracy skills are strongly correlated with students staying at school to year 12 — and the higher workforce participation and earnings that result from improved educational outcomes. Indeed, a number of studies indicate that the labour force participation experiences of the young are likely to be enhanced by improved literacy and numeracy and by the completion of Year 12 education or its equivalent. For example, Lamb (1997) finds that high literacy and numeracy skills are related to better labour market outcomes at age 19, while Hillman (2005) confirms that young people without Year 12 education, who are in the lowest quarter of school achievers, are more likely to experience multiple periods when they are neither in the labour force nor in full-time education.

The OECD's Program for International Student Assessment (PISA) survey provides a basis for assessing Australia's performance in literacy and numeracy. On these measures, average schooling outcomes for Australia are above those of the OECD average, but the distribution around this average displays greater variation in

Australia than in many other countries. In 2003, for example, 30 per cent of Australian 15 year olds did not achieve at least a PISA Level 3 score for reading literacy, and 33 per cent did not achieve at least a Level 3 score for mathematical literacy (OECD 2004). Attempts at explaining differences in education attainment and developing appropriate policy responses to address them, highlight the importance of variation across students within schools rather than inter-school differences.

In recent years, Australian governments have implemented a range of initiatives to encourage more students to complete the later years of schooling. School retention rates for 15-19 year olds have increased over the past 5 years by 3 percentage points for males and 2 percentage points for females.

There are, however, some confounding influences that make it hard to assess the role of education in improving participation outcomes, particularly for vulnerable groups that are often the targets of policy. People who undertake education tend to differ significantly from people who do not. For example, people with higher abilities, social skills and motivation are more likely to choose more education ('self-selection') both because it identifies their greater capabilities and because they are more able to gain additional skills than are less capable people. This is obviously relevant for the decision by children whether to continue in school in years 11 and 12 as well as to participate in tertiary study. People in economically and socially deprived areas may have weaker labour market prospects and lower-quality educational opportunities, which simultaneously reduce attainment rates and participation rates. People are selected to undertake further education on the basis of prior test scores, which in turn are related to inherent ability and participation prospects (Lattimore 2007).

Hence, a focus on the higher labour force participation rates of people with higher educational attainment is likely to overlook the unmeasured effects of individual traits that also shape labour force activity. This is problematic for policy makers because they are typically interested in the benefits of extending education to groups different from those who currently obtain higher educational attainment rates.

A further consideration in judging the likely impacts of policy interventions is that the links between educational attainment, participation and productivity are likely to change over time. A number of factors contribute to this. For example, people's preferences for work may change. There is evidence that participation rates fell among younger males and rose among younger females between 1981 and 2001, irrespective of the level of educational attainment (Kennedy and Hedley 2003).

Reflecting these considerations, policy initiatives in this area are likely to benefit from greater experimentation with new approaches or techniques for reconnecting young people with the education system.

Improving incentives to work

Arrangements which impact on personal finances, including tax, income support and retirement/superannuation provisions, are devised to pursue a variety of policy objectives. However, aspects of their design can create disincentives to work. Around 2.7 million people or some 20 per cent of the working age population receive income support, including sole parents, the unemployed and the disabled. This support provides a safety net for those unable to work as well as for those who can only work to a limited extent. Even so, welfare dependence has become an important issue for social policy, reflecting its adverse effects for the recipients as well as the wider community.

Notwithstanding significant reforms to those arrangements in recent years, and some significant complexities, there would appear to be scope for further improvement. Two commonly cited examples are reforms to the tax/income support system to lessen the disincentive effects of high effective marginal tax rates (EMTRs) and scope for further refinements to income support measures such as the disability support pension (DSP).

Addressing high effective marginal tax rates

Australia's income support system does not feature universal entitlements, instead targeting those in need. This is generally regarded as a strength, as it limits the cost of income support to taxpayers and avoids the payment of benefits to those able to look after themselves. However, targeting can also significantly diminish incentives to (re)enter work, as benefits are withdrawn relatively quickly and liability for income tax reduces the increase in income received from commencing employment or working extra hours. This gives rise to relatively high EMTRs that reduce the effective supply of labour.

Reflecting the breadth of the income support and tax systems, these disincentive effects can extend to a large segment of the working age population. Groups primarily affected include couples with dependent children (family tax benefit), mature age workers (age pension) people with disabilities (disability support pension) and the unemployed (newstart and other allowances).

Clearly, there are policy trade-offs here, as some disincentive effects are an inevitable consequence of targeting income support. Even so, the extent of such disincentives can be magnified by the design of the income support and tax systems.

The McClure Report (2000) identified inadequate incentives for some forms of workforce participation as one of four shortcomings of Australia's income support/tax systems. In subsequent budgets, the Australian Government has introduced various changes, amongst other things, to reduce relatively high EMTRs and so improve incentives for work. Specifically, reductions to marginal income tax rates, increases to the thresholds at which these rates apply and reductions in the withdrawal rates for various benefit payments have reduced disincentives to work. For example, prior to 2000-01, families faced a 50 percentage point increase in their EMTR from the withdrawal of the family benefit above the base amount. Reductions to the withdrawal rate have since reduced this to an increase of 20 percentage points. Increases to the 30 per cent tax threshold and a sizeable increase in the low income tax offset have also improved incentives to work, notably for secondary income earners who are relatively responsive to changes in tax. Finally, a number of reform initiatives, including the 'Better Super' arrangements, are intended to provide stronger incentives for older workers to maintain their connection with the workforce (box 1.2).

A number of studies have sought to estimate the magnitude of EMTRs using data covering tax rates/thresholds and various income support measures. Many of these do not capture the effects of recent initiatives to lower high EMTRs. A recent study, using income tax rates and social security rules applying in January 2007, found that the most common EMTR categories were zero, 30 to 40 and 40 to 50 per cent. Nevertheless, it was estimated that about one in five family types faced EMTRs in excess of 50 per cent (that is, above the top marginal rate of income tax inclusive of the Medicare levy). Two family types — couples with dependent children and sole parents — accounted for some 60 per cent of these relatively high EMTRs (Kalb 2007b).

Financial disincentives associated with relatively high EMTRs influence the participation decisions of people at all income levels. However, the evidence suggests that labour supply responses to changes in these disincentives are largest for single parents and married women, particularly those on lower incomes, as well as for people nearing retirement. In general, labour supply responses become smaller as income rises so that at higher income levels the net impact of the substitution and income effects is negligible. In contrast, the substitution effect tends to dominate at lower income levels, yielding a positive labour market response (that is, encouraging work or the supply of additional hours) from a reduction in EMTRs.

Box 1.2 Work incentives of older workers

For older workers, financial incentives embedded in the income tax system as well as public pension and superannuation schemes play an important role in shaping retirement decisions.

Means testing of Australia's age pension reduces the incentive to work in older age owing to interactions with the effect of income tax when combining the age pension with work. The Australian Government introduced a pension bonus scheme to partially address low mature age participation in July 1998. The scheme provides a tax-free lump sum to people who defer take up of the age pension for up to a maximum of five years. The tax-free lump sum is equivalent to 9.4 per cent of the forgone pension entitlement. By June 2006, around 104 000 people had registered for the pension bonus.

Even so, various studies show that further reforms to pension and superannuation arrangements could provide greater work incentives for participation by older workers. For example, Burniaux et al. (2003), in a study of these arrangements across the OECD, observe that a shift to actuarial neutrality in the Australian age pension could lift aggregate participation by one percentage point. Actuarial neutrality implies an effective increase in pension benefits from delaying retirement.

Operating from 1 July 2007, the 'Better Super' changes were designed to increase retirement incomes, simplify the taxation of superannuation, and give more flexibility and choice in how superannuation can be accessed (Australian Government 2007b). Additionally, the changes were intended to improve incentives to work and save. However, some analysts have questioned whether, on balance, the changes would have this effect (see, for example, Freebairn 2007).

Other studies have sought to evaluate potential reforms to the income support and tax systems aimed at encouraging work and reducing welfare dependency. For example, a study by Buddelmeyer et al. (2006) found that different reforms are effective in solving different problems and often have varying impacts across the income scale — some taxpayers who were previously 'losers' can benefit from changes while others become 'losers'. For example, reducing the withdrawal or taper rates on social security allowances reduces EMTRs for some households while raising them for others. Raising the tax free threshold and reducing the bottom marginal tax rate reduces EMTRs for those on lower incomes, but is relatively expensive in terms of revenue forgone, as the tax cuts also benefit those on higher incomes. Adopting a more targeted approach involving an increase in the low income tax offset or introducing a tax credit for earned income helps to reduce EMTRs for taxpayers with lower incomes, but at the cost of increasing EMTRs for many middle income earners. Further, an increase in the low income tax offset is, in general, relatively attractive to secondary income earners, whereas a tax credit provides stronger work incentives for sole parents.

Thus, the available evidence suggests that there is some scope to lessen Australia's relatively high EMTRs and thereby improve incentives for work. It would seem appropriate before taking further steps, however, to assess the outcomes of recent initiatives to lessen the disincentive effects of Australia's income support and tax systems. Allied to this, it would be helpful to undertake further research to identify the areas offering the largest potential gains in terms of work incentives and labour market responses, for the least cost to government revenue and adverse flow-on effects to non-target groups. That said, it would be important to recognise the broader policy objectives of the income support and tax systems, as the optimal outcome under a targeted income support system will inevitably involve some disincentive to work.

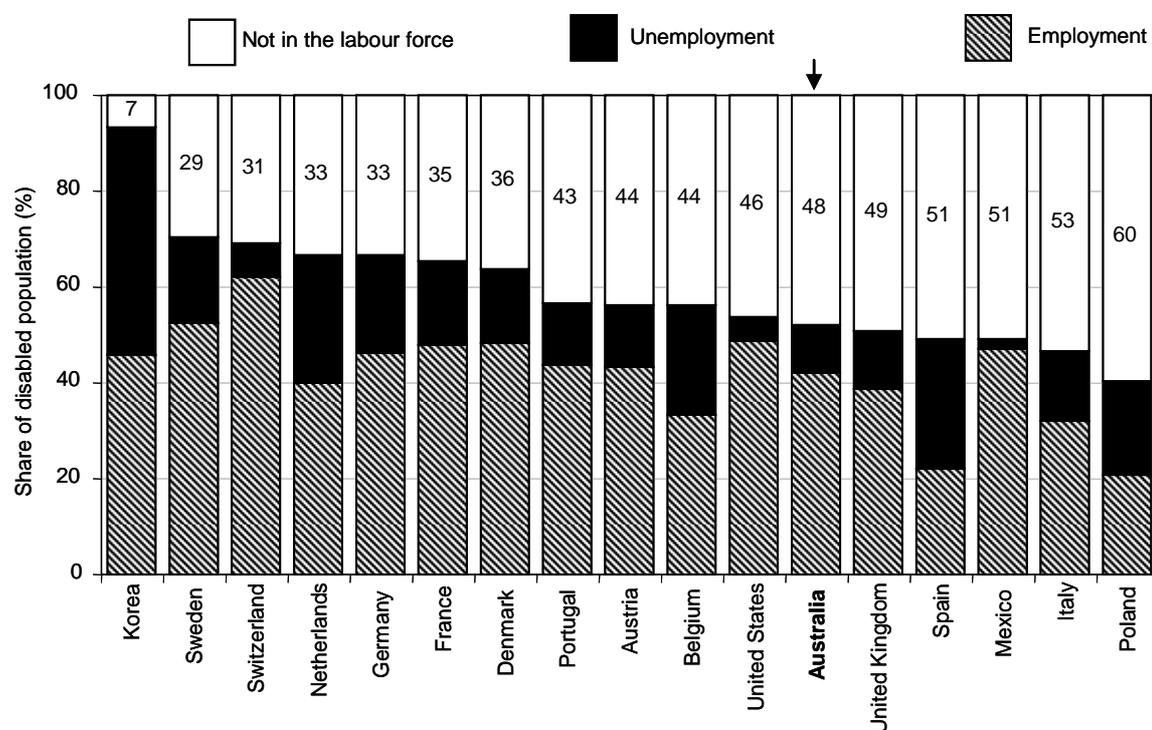
Improving the design of income support — the disability support pension

A major factor underlying the increase in labour disengagement by males aged 25-64 years has been the growth in the DSP (Lattimore 2007). Indeed, this pension has become a major form of support, and an increasingly costly one. Around 50 per cent of all men aged 25-64 years outside the workforce receive the DSP. In 2004-05, its budgetary cost neared \$8 billion, compared with \$4.6 billion for the main unemployment allowance (Newstart).

While unemployment benefit payments and the number of recipients have declined since 2001-02, payments for the DSP have risen strongly. Yet this growth cannot be attributed to either population ageing or an increase in general disability rates. The most plausible drivers seem to be a diminished receptiveness within the economy to employment of people with lower skills and disabilities, accentuated by the incentives associated with the pension itself. The DSP is a relatively attractive benefit compared with alternatives, encouraging entry and discouraging exit. Further, it has not, historically, been combined with significant early rehabilitation efforts or systematic attempts to re-engage people in the labour market. Consequently, moves from the DSP to jobs are rare. As noted below, however, policy has been changing on a number of fronts recently and this may reverse some past trends.

Many people with a disability could participate in the workforce if the work environment facilitated their involvement. While about one-third of pension recipients have profound disabilities, the remainder have moderate or lesser limitations. The rate of labour participation among people with disabilities varies significantly across OECD countries, suggesting scope for their greater engagement in Australia (figure 1.3).

Figure 1.3 **Labour force engagement of people with disabilities**
OECD countries, late 1990s, aged 20-64 years



Source: OECD 2003.

In a recent assessment of cross-country practice the OECD (2003) found that no country exemplifies best practice across the board. It endorsed approaches that:

- break down ('unbundle') the sharp distinction between people with disabilities who receive disability benefit and others who often receive little or no specific disability assistance, so as to remove the adverse incentives and inequities that arise where a sharp line of entitlement for a larger benefit applies
- take individual circumstances into account in designing packages of integration involving, for example, training and job search elements
- promote early intervention such as rehabilitation and appropriate training to facilitate integration
- involve employers in re-integration processes through incentive mechanisms (including appropriate anti-discrimination provisions)
- increase the quality of administration of programs and provide 'one-stop' shops.

Some of these approaches have been followed in Australia. For example, Australia has disability discrimination legislation, and this has been recently upgraded following a review by the Productivity Commission (PC 2004, Ruddock 2005).

Centrelink provides a 'one-stop' service and its model is being emulated elsewhere. New assessment and administrative arrangements are being applied as part of the 2005-06 welfare-to-work reforms. Further, responsibility for the DSP has been shifted from the Department of Family and Community Services to the Department of Employment and Workplace Relations, to signal that people with disabilities need to be seen as part of the wider workforce, rather than as a distinct group.

Despite the obvious attractions of breaking down the sharp distinction between people with disabilities who receive a benefit and others who receive little or no benefit, its practical feasibility and impacts warrant closer analysis. Appropriately designed pilot programs should be considered, given that any changes could cost or save billions of dollars and have far-reaching consequences for the disabled.

There are other ways to advance reform. One would involve assessing the outcomes of the recently introduced welfare-to-work initiatives for the DSP, as well as other forms of income or social support for those outside the workforce, with a view to identifying ways of enhancing the effectiveness of these reforms. A second step might be to consider ways of increasing the number of recipients on these forms of income support who work while receiving benefits.

It is important, however, that scope for gains from any reforms be kept in perspective. The social and, to a lesser extent, budgetary gains from welfare reform are likely to be important. Even so, the impacts on Australia's overall economic performance would be modest, at least in the medium term. This is because the people involved tend to be less productive, have higher unemployment risks and, when employed, work fewer hours than those already in the labour market (PC 2005, 2006b). However, this should not preclude efforts to improve their engagement in work. Indeed, it is their wellbeing, rather than economic growth, that should be the primary target of policy in this area.

Creating more flexible institutional arrangements

The last decade and a half has witnessed significant changes to the regulation of workplace relations in Australia. These have largely been directed at facilitating the more flexible organisation of work according to the circumstances of individual enterprises and workers. Greater flexibility in work options also expands employment opportunities, particularly among young people, mothers, and mature-aged workers. Several factors are likely to be influential in this regard, including continuing changes to workplace regulations in areas like occupational licensing, attitudinal changes to promote and facilitate a better life-work balance, and improved access to and affordability of quality child care.

With marked increases in labour force participation for women over the last decade or so, including those who return to work soon after having a child, the ability of households to balance family and work responsibilities has assumed growing significance. The choice between continuing to work or withdrawing from the labour market is influenced by a variety of institutional arrangements, including access to appropriate child care, parental leave and flexible working arrangements. Weaknesses in these arrangements can have pervasive effects on households in terms of shaping the participation experiences of parents, especially women, as well as the wellbeing of children. Poor quality care in early childhood has been shown to have adverse impacts on a child's subsequent development and health. Child poverty rates are considerably higher for jobless single parent households and for households where only one parent works.

Improving child care arrangements

As observed earlier, participation rates for women aged 25-44 years in Australia are below those of comparable OECD countries, pointing to potential for increased participation amongst this group of women. Much of this apparent gap appears to be related to whether women have children. Participation rates for women without children are comparable with men of a similar age, but participation is relatively much lower for those with children and even lower for women without partners. Moreover, reductions in participation associated with child rearing are more pronounced in Australia, suggesting that there may be a need to address barriers to re-entry to the workforce by women.

Some of this participation gap may reflect women's differing preferences about caring for their own children, or differences in their assessments of the suitability of outside care as a substitute for home care. Many studies confirm the importance of *quality* care, whether by parents or others, in the early years of a child's development. However, survey data reveals that just over half of women who were not in the workforce in September 2005 indicated that they wanted to work, although not actively seeking employment (ABS 2005). Amongst women who cared for children in the survey month, the cost and quality of child care were seen as barriers to participation for about 30 per cent, while a further 10 per cent reported that they could not access child care. However, more than 50 per cent of non-working women indicated that their main reason for not working was that they preferred to care for their own children.

Across the OECD there is clear evidence that the generosity of support for child care affects the workforce participation rates of women. Subsidies for child care in Australia are low by OECD standards. Focusing on the participation implications alone rather than the broader question of whether increased expenditure would

enhance community welfare, Burniaux et al. (2003) estimate that if Australia's expenditure on child care were increased to the OECD average, the participation rate of women aged 25-44, would increase by 3 percentage points. The evidence suggests a larger impact for full-time relative to part-time employment (Jaumotte 2003).

Australian research also suggests a positive (though smaller) relationship between women's participation and government expenditures that lower child care costs, with stronger stimulatory effects for lone parents and lower-income households with pre-school children (see, for example, Doiron and Kalb 2005; Rammohan and Whelan 2006; Kalb 2007a). A possible explanation for this relatively small positive relationship may, in part, be that problems with the availability of child care lessen the responsiveness of participation decisions to changes in the price of child care alone.

As noted, the quality of available child care is also likely to influence the willingness of households to substitute formal care for their own. Some have seen this as another area for attention in Australia (see, for example, Rush and Downie 2006; Kalb 2007a).

The case for government support of child care is contentious. Some have argued, for example, that the decision to have children is voluntary and there is no justification for financial support. There are alternative arguments. First, while the effective nurturing and development of children yields benefits to the individuals concerned and their families, they also have spillover benefits for society while lessening the disposable incomes of households. The family tax benefit is provided, in part, in recognition that where a woman elects to remain outside the workforce to provide home care, the income of the household is reduced. Second, responsibility for child care often falls to women, and repeated or extended breaks from the workforce can make re-entry difficult, with flow-on effects in terms of reduced household and retirement incomes. This barrier can be lessened by providing households with access to an alternative to parental care. It may also be argued that on grounds of equality of opportunity, low-income households need access to affordable and quality child care so they and their children are not disadvantaged relative to high income households; also, such access may reduce costs for the wider community in terms of child poverty and welfare dependency and, possibly, crime.

Reflecting these arguments, governments often pursue multiple objectives in the areas of family support and child care. Clearly, these objectives acknowledge a role for parental choice, and are not simply directed at encouraging higher workforce participation per se. Indeed, support measures such as the family tax benefit may reduce the incentive for women to participate in the workforce. In contrast, child care subsidies reduce the cost of formal child care, thereby raising the return to paid

work and encouraging women to substitute paid work for home care. That said, identifying the appropriate policy regime in this area is far from straightforward. In part, this arises because of the considerable scope for differences of emphasis in relation to concerns about gender equity, household inequality and poverty, and child wellbeing.

The policy debate surrounding the desirability of public support for child care raises a number of issues akin to those associated with the private/public funding of higher education. Both activities yield benefits that are captured by individuals and their families. Both activities also generate spillover benefits for society. Finally, both activities involve uncertainty and risks with respect to an individual's or household's future economic fortunes.

In the case of higher education, society provides a public subsidy to meet some of the costs, but requires a significant private contribution as well. However, prospective students are offered the choice of paying full fees for their courses or making their contribution on a deferred basis through the higher education contribution scheme. The charge associated with this scheme is in effect a risk-sharing income-contingent loan which enables the student to borrow up-front to finance their education and then to repay the loan subject to their future level of income. Hence capacity to pay sets the repayment obligation. There would appear to be merit in examining the scope for improving the take-up of child care and associated labour force participation outcomes through equivalent loan arrangements for child care.

Moreover, as the NRIWG (2006) noted in its report to COAG on possible reforms in the area of human capital for the NRA, there are concerns that the child care market may not be functioning as efficiently as it should. In the Commission's view, given its economic and social significance, there is a case for thoroughly investigating both the performance and financing of child care in Australia.

Summing up

Policies to improve labour force participation can enhance Australia's future prosperity and mitigate the adverse impacts of population ageing. However, higher participation is not an end in itself and it is important to assess policy initiatives from a community wellbeing perspective, one which takes account of peoples' underlying preferences as well as the spillover effects of changes in participation on the wider community. In this sense, it is important that all the associated costs and benefits are taken into account.

There are three main areas for policy attention: improving the capacity of people to work, enhancing incentives to work and creating more flexible institutional arrangements. An examination of a selection of policy measures covering these areas illustrates some of the challenges in developing effective policy responses. Key among these are:

- ensuring that any policy measures take explicit account of the multiple objectives and policy trade-offs that often apply
- understanding the characteristics of the target group(s) relative to the existing workforce, including any likely productivity differentials
- realistically assessing the timeframe in which policy impacts might occur, which can be protracted in areas such as health promotion/disease prevention and education.

Such challenges underline the value of policy experimentation, including pilot testing of programs, and learning from the experiences of different jurisdictions. As recognised by COAG in relation to the human capital stream of the NRA, tackling policy-related impediments to labour force participation will require actions by all governments in Australia.

2 Review of Commission activities and performance

Some highlights from 2006-07

- major reports on road and rail freight infrastructure pricing, price regulation of airport services, waste management and public support for science and innovation
- COAG acceptance of the Commission's proposals to move to stage 2 of business regulation benchmarking
- completion of a major research study to inform COAG of the potential benefits of the National Reform Agenda
- release of the 3rd Overcoming Indigenous Disadvantage report and the Chairman's presentation to the OECD World Forum in Istanbul
- establishment of an enhanced regulation-making framework at the Commonwealth level and of the Office of Best Practice Regulation within the Commission to replace the Office of Regulation Review
- key supporting research outputs to inform policy development and debate on productivity, emissions trading and labour market issues

Areas of focus for 2007-08

- completion of current inquiries and government-commissioned research on the consumer policy framework, chemicals and plastics regulation, retail tenancies, local government revenue raising capacity and safeguard action against pigmeat imports
- continuing assessment of regulatory burdens on business and the inter-jurisdictional benchmarking of business regulation
- ongoing implementation of the enhanced regulation-making framework, including improved use of cost-benefit analysis and consultation requirements such as green papers, exposure drafts and annual regulatory plans
- plan for and develop the Commission's ability to meet future work demands

Overview

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

The Commission, in pursuing this objective, has five broad work streams or categories of 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.

The breadth and volume of the Commission's work are indicated by the reports it published in 2006-07 (box 2.1). There was a strong emphasis on regulatory issues in the 2006-07 work program, with inquiries on the pricing of road and rail freight infrastructure as well as airport services, the consumer policy framework and retail tenancy, and government-commissioned studies on the feasibility of inter-jurisdictional benchmarking of business regulation and of the scope to reduce the regulatory burden on Australia's primary sector. A variety of environmental and

Box 2.1 **Commission publications in 2006-07**

Public inquiries (draft reports)

Review of price regulation of airport services	Tasmanian freight subsidy arrangements
Road and rail freight infrastructure pricing	

Public inquiries (final reports)

Review of price regulation of airport services	Waste management
Tasmanian freight subsidy arrangements	Road and rail freight infrastructure pricing

Government-commissioned research studies (draft reports)

Standard setting and laboratory accreditation	Public support for science and innovation
Performance benchmarking of Australian business regulation	

Government-commissioned research studies (final reports)

Standard setting and laboratory accreditation	Rural water use and the environment: the role of market mechanisms
Performance benchmarking of Australian business regulation	Public support for science and innovation

Performance reporting

Report on Government Services 2007: education, justice, emergency management, health, community services and housing	Report on Government Services 2007: Indigenous compendium
Framework for reporting on Indigenous disadvantage: report on consultations	Overcoming Indigenous disadvantage: key indicators 2007 overview
Financial performance of government trading enterprises 2000-01 to 2004-05	Overcoming Indigenous disadvantage: key indicators 2007 report

Regulation review

Best practice regulation handbook and associated tools and guidance material (drafts)

Annual report suite of publications

Annual report 2005-06	Regulation and its review 2005-06
Trade & assistance review 2005-06	

Commission research paper

Potential benefits of the National Reform Agenda

Submission

Productivity Commission submission to the Prime Ministerial Task Group on Emissions Trading

(continued next page)

Box 2.1 (continued)

Chairman's published speech

Regulation for Australia's federation in the 21st century

ABS/Productivity Commission report

Characteristics of Australia's irrigated farms, 2000-01 to 2003-04

Staff working papers

Workforce participation rates — how does Australia compare?

Men not at work: an analysis of men outside the labour force

Effects of health and education on labour force participation

Can Australia match US productivity performance?

2006 Richard Snape Lecture

The world economy in the new millennium: a golden age? (Deepak Lal)

social issues, each with significant economic dimensions, is evident in completed projects on waste management, rural water use and the environment, emissions trading, Indigenous disadvantage, labour force participation and related elements of the 'human capital' stream of the National Reform Agenda.

Following the report *Rethinking Regulation* by the Regulation Taskforce (2006), chaired by the Commission's Chairman, the Australian Government moved to raise the quality of regulation over time through an enhanced regulation-making framework that would improve the analysis of regulatory proposals and their subsequent review.

The Office of Best Practice Regulation (OBPR), established within the Commission in November 2006 to replace the Office of Regulation Review, has been assigned a central role in assisting government regulatory bodies meet the new requirements and build their capacity to undertake regulation impact analysis. The OBPR also monitors compliance with the regulatory impact analysis requirements. The new requirements for regulatory analysis are set out in the *Best Practice Regulation Handbook* that was prepared under the guidance of a Steering Committee of senior officials from the departments of the Prime Minister and Cabinet, Treasury and Industry, Tourism and Resources. The OBPR has taken responsibility for the Business Cost Calculator, Regulatory Performance Indicators and Annual Regulatory Plans, previously administered by the Department of Industry, Tourism and Resources. Like the Office of Regulation Review, the OBPR continues to advise ministerial councils and national standard-setting bodies on regulatory best practice and reports on compliance with COAG requirements.

A continuing feature of the Commission's work program is its involvement with Australia's jurisdictions in standing research responsibilities and specific projects. The Commission's standing research obligations encompass cross-jurisdictional reporting on the performance of government services, indicators of Indigenous disadvantage and the performance of government trading enterprises. Specific projects completed in 2006-07 were:

- the study on rural water use and the environment, undertaken to assist jurisdictions meet their commitments under the National Water Initiative
- the inquiry report responding to COAG's request that the Commission develop proposals for the efficient pricing of road and rail freight infrastructure
- the Commission's assessment of the feasibility of developing cross-jurisdictional performance indicators and reporting frameworks to assist COAG implement its decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business
- the Commission Research Paper, *Potential Benefits of the National Reform Agenda*, followed a request by COAG Senior Officials for an evaluation of the potential economic and revenue implications of the competition-related and regulatory reform streams of the NRA, as well as its human capital stream covering health, education and training, and work incentives.

Current projects continue the trend. These include the Commission's inquiry on Australia's consumer policy framework (for consideration by the Ministerial Council on Consumer Affairs) and government-commissioned studies on chemicals and plastics regulation (to help inform the work of the COAG ministerial taskforce in streamlining and harmonising the system of national chemicals and plastics regulation) and on local government revenue raising capacity. At its meeting in April 2007 and consistent with the Commission's initial report, COAG agreed to proceed to the second stage of business regulation benchmarking and the Commission commenced this project in September 2007.

In addition, COAG has agreed that jurisdictions will review existing regulations with a view to encouraging competition and efficiency while streamlining and reducing the regulatory burden on business. Each jurisdiction is to initiate at least annual targeted reviews to reduce the burden of existing regulation in its own jurisdiction through a public inquiry and reporting process. The Commission began the first of the Commonwealth's annual reviews — commencing with the primary sector — in April 2007.

Year in review

The Productivity Commission's objective of better informing public policy development 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 2006-07 were as follows.

Public inquiries and other commissioned studies

The Commission had six public inquiries and six government-commissioned research studies underway at some time during 2006-07. In addition to completing seven references from the previous year, it received five new projects, continuing the broad span of policy issues and the mix between inquiries and research studies evident in recent years (figure 2.1).

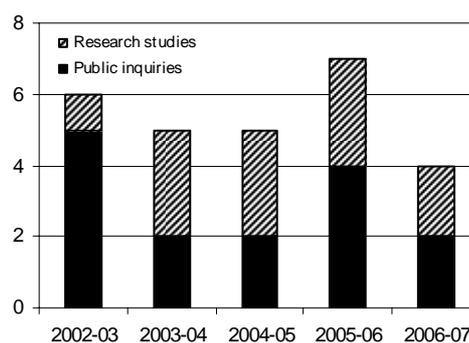
The Commission completed four inquiries commenced in the previous financial year on waste management; road and rail freight infrastructure pricing; Tasmanian freight subsidy arrangements; and the price regulation of airport services.

Two new inquiries commenced in 2006-07.

- The inquiry on Australia's consumer policy framework is the first substantial review in over two decades. The Commission has been asked to report on ways to improve the regulatory framework to assist consumers to operate effectively in increasingly complex markets, improve the harmonisation and coordination of consumer policy and its development and administration across jurisdictions in Australia, and avoid regulatory duplication and inconsistency.
- The inquiry on the market for retail tenancy leases in Australia arose from the concerns of some small business tenants about the difficulties they face in entering into commercial leases over which they feel they have little or no control and industry concerns about disparate retail tenancy laws across the States and Territories.

During 2006-07 the Commission finalised three government-commissioned research studies commenced in the previous year — on rural water use and the environment; standard setting and laboratory accreditation; and public support for science and innovation. In addition, the Commission commenced and completed in

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



the year, a study on performance benchmarking of Australian business regulation. This study required the development of a range of feasible quantitative and qualitative performance indicators and reporting framework options to inform subsequent benchmarking of regulatory burdens on business.

The Commission commenced the first of the Commonwealth's annual reviews of regulatory burdens on business, as well as a study on local government revenue raising capacity that is to provide a clearer picture of local governments' financial capacities and the sources of revenue available to them.

Since 30 June 2007 the Commission has received references on chemicals and plastics regulation, the second stage of business regulation benchmarking and a safeguards inquiry on pigmeat imports that, in addition, requires an accelerated report by 14 December 2007 on whether provisional safeguard measures are warranted.

Further information on public inquiries and the commissioned research studies undertaken by the Commission during 2006-07 and, where available, government responses to reports, is provided in appendices B and C.

Performance reporting and other services to government bodies

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

The *Report on Government Services 2007* was the twelfth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning education, health, justice, community services, emergency management and housing. These services collectively account for more than \$100 billion of government recurrent expenditure, equivalent to 11 per cent of gross domestic product. A separate Indigenous Compendium was also published, providing an easily accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review strives for continuous improvement. The 2007 Report included new indicators for public hospitals and services for people with a disability. There was also improved reporting on aspects of vocational education and training, public hospitals, aged care services, services for people with a disability, children's services, child protection and support services, and housing.

In April 2002 COAG asked the Steering Committee to produce a regular report on key indicators of Indigenous disadvantage, as part of the COAG reconciliation commitment. COAG set two core objectives for this reporting:

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

Three editions of the report *Overcoming Indigenous Disadvantage: Key Indicators* have been released, in November 2003, July 2005 and June 2007. The third edition showed that many Indigenous people have shared in Australia's recent economic prosperity, with improved employment outcomes and higher incomes. There have also been improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to do worse than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

The Report encouraged efforts to improve data on outcomes for Indigenous Australians, noting that there are significant data gaps in some critical areas. There are currently no comparative data on school attendance or learning outcomes for Indigenous children according to the degree of regional remoteness, and hospitalisation data for Indigenous people in the two largest States (NSW and Victoria) were too poor to be published.

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

Financial performance monitoring of government trading enterprises (GTEs) forms part of this research stream and was the major activity during 2006-07. The 2006 report, released in July 2006, included the first outputs of a new research program on the capital management of GTEs, initially covering capital structures and equity withdrawals. Capital structures were examined because of their importance in influencing incentives for management to maximise shareholder returns and operational efficiency. Equity withdrawals have been governments' dominant instrument for capital restructuring in recent times, but they have been controversial

because of claims that the withdrawals have been to the detriment of GTE balance sheets and the services GTEs provide.

The Commission's 2007 report covering GTE performance in the period 2004-05 to 2005-06 was released in July 2007. It included an examination of the influence of different asset valuation methods and rate of return measures on performance comparisons and capital management. The report found that after almost two decades of reform, many GTEs are insufficiently profitable to achieve a commercial rate of return on their assets. Indeed, although governments have given undertakings to operate their businesses on a fully commercial basis, more than half of those GTEs monitored continued to earn a return on assets below the risk-free rate. This picture of under-performance reinforces the need for efficient capital management.

Further information on performance reporting activities in 2006-07 is provided in appendix B.

Regulation review activities

The Productivity Commission has a role in helping to achieve better regulatory processes and outcomes through the Office of Best Practice Regulation (OBPR, formerly the Office of Regulation Review). The OBPR advises more than 60 departments, regulatory agencies, statutory authorities and national standard-setting bodies, and about 40 ministerial councils, on processes for the development of regulatory proposals and for the review of existing regulation. It reports annually on compliance with regulatory impact analysis requirements of the Australian Government and COAG. It also provides training on regulatory best practice to these bodies.

On 15 August 2006 the Australian Government announced its response to the recommendations of the report *Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business*. The Government agreed in full or in part to 158 of the 178 recommendations, including:

- strengthening the Regulation Impact Statement (RIS) adequacy requirements
- introducing 'gate-keeping' requirements for regulatory proposals
- mandating assessment of compliance costs using the Business Cost Calculator or an approved equivalent method
- developing cost-benefit analysis capabilities within departments and agencies
- adopting a whole-of-government policy on consultation
- broadening the training and advisory role of the Office of Regulation Review.

The purpose of the regulatory impact analysis process is to ensure that proposed regulation will be the most efficient and effective means to address a policy issue or problem. The process includes preliminary assessments, analysis of compliance costs and RISs. The process requires agencies to follow a consistent, systematic and transparent process for assessing appropriate policy approaches to problems. It aims to ensure consideration of the social and environmental as well as the economic impacts of any proposed regulation. This includes an examination of alternative approaches and an assessment of likely impacts on different groups and the community as a whole. A RIS or report on compliance costs can assist government by providing relevant information to the decision maker. In addition, after the decision is made and the RIS or report on compliance costs is made public, it provides a transparent account of the factors behind that decision.

The OBPR seeks to promote efficient and effective regulation by providing advice on, and monitoring compliance with, the Australian Government's requirements for regulation making (box 2.2). It also examines and provides advice on similar processes for ministerial councils and national standard-setting bodies.

Competitive neutrality complaints activities

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

The Australian Government 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 one written complaint in 2006-07. This complaint proceeded to formal investigation and a report will be released in 2007-08.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2006-07 the Office provided advice around three times a week, on average, to government agencies or in response to private sector queries.

Details of the complaint, action taken, and the advisory and research activities of the Australian Government Competitive Neutrality Complaints Office, are reported in appendices B and D.

Supporting research activities and annual reporting

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

Box 2.2 Compliance with regulatory impact analysis requirements in 2006-07

The Productivity Commission is required to report annually on compliance with regulatory impact analysis requirements. Its report for 2006-07 indicates:

- The Australian Government made about 2300 regulations. The OBPR provided advice on 780 regulatory proposals, of which 163 proposals required further regulatory analysis. About 4 per cent of all regulatory proposals made in 2006-07 required a regulatory impact analysis.
- Compliance with the Government's regulatory impact analysis requirements at the decision-making stage in the regulatory policy development process was higher than in previous years.
 - Under the previous RIS requirements, 54 adequate RISs were prepared of the 63 required, resulting in a compliance rate of 86 per cent (compared to an average compliance rate of 80 per cent in the previous three years).
 - Under the enhanced regulatory impact analysis requirements, two assessments of business compliance costs were prepared (100 per cent compliance) and 15 adequate RISs were prepared of the 16 required, resulting in a compliance rate of 94 per cent.
- In 2006-07 five RISs were required at the decision-making stage for regulatory proposals that the ORR/OBPR identified as having a highly significant impact on business and individuals or the economy. Under the previous RIS requirements, four RISs were required and prepared. Three were assessed as adequate. Under the new regulatory framework, one RIS was required but not prepared or granted exceptional circumstances status (and will require a post-implementation review).
- In relation to COAG's regulatory impact analysis requirements, 31 adequate RISs were prepared of the 33 required at the decision-making stage, resulting in a compliance rate of 94 per cent.

Further compliance details, including performances for individual departments and agencies, as well as for ministerial councils and national standard-setting bodies, are provided in the *Best Practice Regulation Report 2006-07* (PC 2007).

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

Following consultations in Melbourne and Canberra in July 2006, the Commission reaffirmed that its supporting research program would continue to emphasise the sustainability of productivity improvements, including environmental and social aspects. The program for the following two years is to include work on:

- productivity and its determinants
- environmental and resource management
- labour markets
- development of economic models and frameworks (PC 2006a).

In addition to its Research Paper informing COAG on the potential benefits of the National Reform Agenda, the Commission published research during 2006-07 on various aspects of labour force participation — international comparisons of workforce participation rates, an analysis of Australian men neither working nor looking for work, and the effects of health and education on labour force participation — as well as emissions trading, Australia's potential for productivity growth and statutory annual reporting (box 2.1).

Further information on the Commission's supporting research activities and publications in 2006-07 is provided in appendix E. This also details the 79 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research, performance reporting and regulatory review work (table E.1). The Commission briefed 35 international delegations and visitors during 2006-07, with a particular focus on the Commission's role and activities and related policy issues (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 are tested publicly and are therefore more robust. They also provide a public demonstration of the Commission's independence from the various arms of government and the interest groups with which it comes in contact.

Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. An indication of the extent of consultation undertaken by Commission is that during the course of its public inquiry activities in 2006-07, it met with more than 130 people, organisations or groups; held 28 days of public hearings; and received more than 420 submissions from participants.

The Commission has adapted its inquiry consultative processes to suit the variety of research studies commissioned by the Government. These studies typically require less public interaction than inquiries, but the Commission nevertheless provides opportunities to obtain feedback on its analytic framework and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 480 submissions to these studies in 2006-07, more than half of which were to the study on public support for science and innovation. Visit programs and targeted roundtable discussions provide opportunities to engage with key participant groups on the issues of concern to them and to gain feedback on the Commission's analysis.

The nature of the Commission's consultative and transparent processes in the past year is illustrated in box 2.3. These examples also demonstrate initiatives to ensure that the views and experiences of people living in regional areas are taken into account.

Enhancing its own research capabilities

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

For example, in order to help refine and improve proposed approaches and to narrow areas of contention in its research on the potential benefits of the National Reform Agenda, the Commission:

- contracted the Centre of Policy Studies at Monash University to update the MMRF model to include a more detailed treatment of government finances and the fiscal effects of the goods and services tax and a revised treatment of the transport and energy sectors — an update that was facilitated by the ABS advancing publication of its 2001-02 input-output tables

Box 2.3 **Open and transparent processes are integral to the Commission's work**

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

In its inquiry on *road and rail freight infrastructure pricing* the Commission:

- notified around 1500 individuals and organisations considered likely to have an interest, including more than 600 regional local government bodies and more than 400 regional media outlets
- provided a presentation to a CRA International Seminar, signalling emerging inquiry issues and early directions, that was placed on the Commission's website
- convened a roundtable in Emerald, Queensland, to discuss potential regional and remote impacts of infrastructure pricing reforms and another roundtable in Canberra on key inquiry issues involving around 40 representatives from the Commonwealth, State, Territory and local governments, peak industry organisations as well as several transport consultants
- conducted public hearings on its Discussion Draft in Brisbane, Sydney, Canberra and Melbourne
- held a roundtable on developing practical steps towards the introduction of more commercially-oriented pricing and more efficient provision of road infrastructure which was attended by about 40 experts from government, industry and academia
- held a workshop with senior rail industry executives to consider issues raised by the Commission's Discussion Draft and, more generally, the future of rail.

In its inquiry on *Tasmanian freight subsidy arrangements* the Commission:

- met with individual producers, shipping companies, government agencies and other interested parties, mainly in Tasmania, after the release of its issues paper
- participated in roundtable meetings in Hobart and Launceston and on King Island
- held draft report hearings in Hobart, Launceston and Melbourne.

For its study on the *performance benchmarking of Australian business regulation*, the Commission:

- sought advice from businesses on their regulatory concerns to ensure that the proposed benchmarking and reporting options would be relevant to them
- consulted all governments so as to understand their expectations for the study and views about benchmarking
- convened two roundtable discussions with government, business and academic representatives to provide feedback on the Commission's draft proposals.

In the course of its inquiry on *waste management*, the Commission used teleconferencing to facilitate the participation of people in regional Victoria, Western Australia, the Northern Territory and Tasmania in its hearings.

-
- held a series of workshops at which work-in-progress was discussed with representatives of Commonwealth, State and Territory government agencies, as well as by experts in the areas covered by the NRA and representatives of the Energy Reform Implementation Group
 - organised a separate workshop on the update of the MMRF–NRA model
 - provided regular briefings to a Heads-of-Treasury Subcommittee of Deputies
 - held a workshop in September 2006 to obtain feedback on the Commission’s preliminary results
 - consulted with sectoral experts including officials from five Commonwealth departments, the ACCC, Bureau of Transport Economics, Energy Reform Implementation Group, National Energy Market Company, the Australian Energy Users Association, the Australian Council for Educational Research, academics, and Commonwealth and State Treasury officials.

The Commission also involves outside policy advisers and researchers through hosting or co-sponsoring conferences or roundtables on topics of policy interest. Preparations were underway in 2006-07 for the Commission’s Roundtable on Behavioural Economics and Public Policy, held in early August 2007. Behavioural economics merges psychology, economics and other disciplines to try to understand the way people actually behave in the market place. The Commission’s roundtable explored the application of behavioural economics to public policy development. Invitees to the roundtable included eminent international experts in this field, as well as senior officials, business and consumer representatives, policy analysts and commentators. Papers were made available on the Commission’s website and the proceedings are to be published.

The Commission continued its Visiting Researcher Program which seeks to attract established researchers with an outstanding research record in areas related to the Commission’s main research themes. Visiting Researchers share their knowledge with Commission staff and contribute to the work and intellectual life of the Commission. Dr Geoff Edwards (formerly Associate Professor at La Trobe University) continued as a Visiting Researcher in 2006-07 and Dr Mark Harrison (formerly of the Australian National University and since then an independent economic consultant) joined the program in April 2007 for 12 months.

The Commission invites external speakers to participate in its seminar program so as to enhance its knowledge and skill set across a broad range of economic policy issues, including social and environmental. These seminars provide another way of encouraging intellectual debate within the Commission and improving networks with academic and other experts.

Research program consultations

The Commission regularly holds external consultations with Australian Government agencies, peak industry bodies, and union, environmental and community groups to obtain views on future directions for the Commission's supporting research program and on specific research topics. The views of State and Territory governments are gathered in a separate program of regular consultation visits and other exchanges. Discussions are also held with academics and other interested parties. In addition, the Commission monitors government statements on policy priorities and parliamentary debate and committee work.

Together with contributions from Commissioners and staff, these consultations help set broad directions for the Commission's supporting research. However, the Commission adds to and modifies its research priorities when significant new issues arise and in the light of projects formally requested by government. Details on individual projects are updated on the Commission's website during the year.

Supporting research consultations were held in July 2006 and informed the directions the Commission set for its supporting research program over the subsequent two years (PC 2006a).

Research collaboration

The Commission participates in collaborative research projects with academic institutions. Partners in such research projects in 2006-07 were:

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) to develop two models to strengthen the analytical framework for policy review and development
 - a broadly-based health sector model to enable policy makers to assess the distributional consequences of a wide variety of health policy changes (other partner organisations are the NSW Health Department, the Health Insurance Commission, the ABS and the AIHW)
 - a dynamic population microsimulation model with the capacity to assess the future distributional and revenue consequences of changes in tax and outlay programs and thereby aid policy development in the context of Australia's population ageing challenge (other partner organisations include Centrelink, the ABS and 10 Australian Government departments)
- the Australian National University on setting priorities for services trade reform, involving new empirical estimates of barriers to services trade and expanding

cross-sectional datasets on regulatory barriers to trade that can be applied in the analysis of the potential benefits of reform and to trade policy negotiations.

Collaborative projects completed in 2006-07 were with the Melbourne Institute of Applied Economic and Social Research, Melbourne University, on the determinants and effects of enterprise entry and exit on growth and productivity in Australian industry, and with the Centre of Policy Studies, Monash University, to overhaul the widely used MONASH model of the Australian economy and create a MONASH-style model for the US so as to facilitate policy analysis and comparative studies of technology and labour market adjustment.

The result of a collaboration between the Australian Bureau of Statistics and the Commission on the analysis of data on farms that use and trade irrigation water, *Characteristics of Australia's Irrigated Farms 2000-01 to 2003-04*, was released by the ABS in September 2006. The statistical and other information in the joint report is intended to assist researchers identify farm management and resource use practices that contribute to the productive and efficient use of irrigation water. As the accompanying ABS media release noted:

The collaborative arrangement between the ABS and the Productivity Commission was the first of its type between the two organisations and its success demonstrates the potential for research and analysis of ABS data sets. (ABS 2006)

Further collaborative work between Commission staff and the ABS in 2006-07 involved exploratory studies of innovation and business performance using linked firm-level data sets and was published as an ABS Research Paper in September 2007 (Wong et al. 2007).

The Commission is a member of the Global Trade Analysis Project Consortium based at Purdue University in the United States. This membership gives the Commission early access to database updates that are needed in its research, as well as priority access to model training and input to the future direction of model and database development.

Research networks and linkages

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

- The Commission is part of a research consortium, comprising the US National Bureau of Economic Research and several Asian research institutes, which arranges the annual East Asian Seminar on Economics. The 18th East Asian Seminar on Economics, held in Singapore in June 2007, focused on financial

sector development in the Pacific Rim. Commission research on productivity and the trade and investment effects of preferential trading arrangements have featured in previous seminars.

- The Commission's Chairman, Gary Banks, is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University, as well as on the Advisory Board of the Economics Department at Monash University. Dr Neil Byron is a member of the World Commission on Protected Areas of the IUCN (World Conservation Union). Commissioner Mike Woods is the Commission's principal contributor to the China Australia Governance Program, chairs the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in China in 2006-07. Commissioners are also members of various advisory boards and committees, including university and non-profit organisations.
- The Secretariat for the Review of Government Service Provision is represented as an observer or member of many national and intergovernmental advisory groups developing priorities and strategies for improved reporting, as well as providing expert advice to data collectors and users on concepts, definitions and classifications.
- Staff members are also involved in such networking activities. Dr Jonathan Pincus, Principal Adviser Research, is a Fellow of the Academy of the Social Sciences in Australia. Assistant Commissioner Lisa Gropp was a Visiting Senior Fellow, Groupe d'Economie Mondiale (GEM) at Sciences Po, Paris, in early 2007. Other members of staff in 2006-07 served on bodies such as the Australian Accounting Standards Board Consultative Group, the OECD's Working Party on Industry Analysis, the International Advisory Committee for the International Productivity Monitor, the ABS Productivity Measurement Reference Group and the executive committee of the Comparative Analysis of Enterprise Data (CAED) international network.
- The OBPR participated in the annual meeting of regulation review units from the States, Territories and New Zealand in Wellington in October 2006. The website developed by the OBPR to share information, the web-forum, is being used by the regulatory review units. The OBPR also met with officials from the IMF, OECD, the Regulatory Impact Analysis Unit of the New Zealand Ministry of Economic Development, and government officials from China, Indonesia, Korea and Brazil. It also responded to requests for information on Australia's regulatory impact analysis requirements from the Portuguese, Belgian and Japanese governments.

Informing and communicating via the internet

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries and community access to the research outputs that inform community debate on microeconomic policy and regulation. 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.

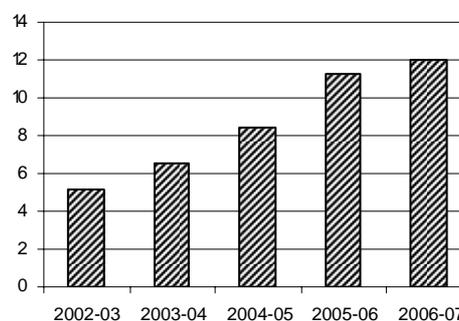
The Commission's website also provides ready access to its other outputs — research publications, Commission submissions to other review bodies, key speeches by the Chairman, competitive neutrality complaints reports, benchmarking studies, OBPR guidance material and reports arising from its secretariat work for the Review of Government Service Provision. The website facilitates on-line registration of people's interest in participating in individual inquiries and studies and to receive updates on more general developments. An email alert service currently notifies more than 800 recipients of significant weekly events including report releases, the start and completion of inquiries and the Chairman's speeches. This service is additional to the email alerts sent to federal parliamentarians, the media, departmental heads and contacts in the States and Territories.

In the 12 months to June 2007 there were more than 157 500 external requests for the index pages of inquiries and government-commissioned research studies current in 2006-07. The projects of most interest were the study on public support for science and innovation (34 400 requests) and the inquiries on airport services pricing (21 500 requests), road and rail freight infrastructure pricing (19 500 requests) and waste management (18 500 requests). Other heavily accessed web pages were for the 2006 and 2007 Reports on Government Services (14 800 and 12 500 requests, respectively) and the 2005 and 2007 Overcoming Indigenous Disadvantage reports (19 300 requests in total). Speeches given by the Commission's Chairman attracted more than 18 000 website requests.

Even after an inquiry or project is completed, community interest can remain high. For example, during the year, web pages for the Commission's 2005 study of the economic implications of an ageing Australia were requested more than 44 300 times in 2006-07 and those for the Commission's 1999 inquiry on Australia's gambling industries were requested about 19 200 times.

The Commission's website, including the OBPR website, received nearly 12 million file requests from external users in 2006-07, a levelling in the activity seen in previous financial years (figure 2.2).

Figure 2.2 **Website hits**
Million



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

In June 2007 the Commission undertook a survey of the quality and readability of its reports in order to identify areas in which its performance could be enhanced. Ninety five per cent of respondents indicated that they found the information and analysis in Commission reports to be 'useful' or 'very useful', although variations were evident across reports and respondent groups, and in responses to subsidiary questions on a range of quality attributes. Respondents were also asked to rate various readability aspects of Commission reports. Eighty one per cent indicated that Commission reports were generally reader friendly and aspects such as the use of tables, charts and jargon and page presentation rated similarly well. The main concern with readability related to the length of reports: although 59 per cent of respondents rated the length to be satisfactory, 40 per cent considered them generally to be too long. Further details on the survey results are in appendix B (pp. 98–9). The Commission is assessing the implications of the survey for the ways in which it engages with, and responds to the views of, the range of potential participants in its work; presents its analysis and conclusions; and can enhance the readability of its reports.

The Steering Committee for the Review of Government Service Provision seeks feedback on the usefulness of the Report on Government Services every three years and uses the feedback to increase the accountability of the Review itself. Seventy-eight per cent of respondents in the 2007 survey were satisfied or very satisfied with the Report. Nevertheless, data comparability, quality and timeliness were identified as areas needing improvement. Further details on the survey results are in appendix B (p. 136). The survey results and the constructive suggestions made by many survey respondents are informing the work of the Steering Committee.

The OBPR continued its ongoing survey of officials preparing RISs to obtain feedback on how departments and agencies view the OBPR's work performance and the quality of its service in providing advice on the Government's regulatory best practice requirements. The OBPR dispatches evaluation forms after each RIS has been assessed. Ninety-three per cent of respondents in 2006-07 rated the quality of the OBPR's written and oral advice as 'good' or 'excellent'. In a separate survey, a total of 92 per cent of respondents in 2006-07 rated the OBPR's training in regulatory best practice as good or excellent. Details are provided in appendix B (pp. 146-8).

In addition to its rolling program of surveys, the Commission monitors less formal sources of feedback on the public record. Of course, views on the value of the Commission's processes and the quality of its outputs can reflect agreement with, or opposition to, specific pieces of Commission analysis or advice. Nevertheless, the examples in box 2.4 help illustrate the breadth of support for the Commission's policy-advising contribution.

The Commission systematically offers recipients of its reports and users of its website the opportunity to provide feedback. The Commission's website has provision for sending comments via email and an on-line survey form and the Commission provides a publication feedback card in reports for mailing comments. The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and conduct of hearings. Feedback through these mechanisms remains low: less than 50 respondents in total in 2006-07. Most of the feedback was positive. Feedback is forwarded to authors, inquiry teams and management for consideration and action, where required.

Box 2.4 Support for Commission activities: some recent examples

The May 2007 'Statement of Expectations for the Commission' said that the Australian Government viewed Commission advice as 'balanced, objective and thorough'.

Consistent with Commission advice, COAG decided to proceed with inter-jurisdictional benchmarking of business regulation.

Coalition election policies announced intentions for a Commission inquiry on the regulation of Australia's wild catch fisheries, annual benchmarking of the cost of essential infrastructure services for residential land releases, and a review of the dividend policies for capital city water utilities and the transparency of water billing.

Labor Party election policies announced intentions for the Commission to estimate the costs and benefits of harmonising key business regulation across jurisdictions, assess policies to support working parents, measure the contribution of community sector organisations, assess the jurisdictional distribution of net benefits from COAG regulation reforms, and review the telecommunications Universal Service Obligation.

Recent federal parliamentary committee reports recommended a Productivity Commission inquiry on the cost effectiveness of law enforcement bodies and that the Overcoming Indigenous Disadvantage report be expanded to cover the Northern Territory Emergency Response.

The Human Rights and Equal Opportunity Commission recommended that the Commission be asked to report on Australia's early childhood education and care workforce and on the feasibility of superannuation-like arrangements for unpaid carers.

The Australian Consumers' Association requested a Commission review of the price regulation of prescription medicines in Australia.

Peak industry bodies such as the BCA, APPEA, MBA, NSW Business Chamber and the Australian National Retailers Association variously recommended that the Commission review Australia's business tax system, infrastructure policy and condition, greenhouse gas reduction targets, the regulation of onshore and offshore petroleum activities, funding for residential land provision, the distribution of GST revenues, and recent legislative amendments to s. 46 of the Trade Practices Act.

The Group of Eight universities proposed that the Commission advise on relative teaching costs across broad disciplines.

The Energy Reform Implementation Group suggested the Commission could help the Ministerial Council on Energy develop policy more reliably than through ad hoc reviews.

A range of policy analysts variously called for Commission reviews of Australia's quarantine system, reform of Indigenous-specific programs and funding mechanisms, and commissions paid in the financial services industry.

General endorsement of the Commission's role and activities can also be found in the WTO's assessment that the Commission's independence and transparency has facilitated economic reform in Australia, proposals that APEC consider a commission-like body and calls in New Zealand for their own 'productivity commission'.

Details are provided in appendix B.

Policy and wider impacts

All of the Commission's activities in its five output groups are directed at meeting the policy needs of government or otherwise fulfilling statutory requirements. As agreed with the Treasurer, the outcome objective against which the Commission's overall performance is to be assessed is:

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

Proper assessment of the Commission's performance is made difficult because it is but one contributor among many to an eventual outcome. Even when its advice or findings are not supported by government, the Commission's independence and view of the long-term public interest can play a significant role in helping governments, parliaments and the community understand the trade-offs in different policy choices. Furthermore, as the Commission's public inquiry and research outputs contribute to public debate and policy development across a range of complex and often contentious issues, its contribution and influence should be assessed over the medium to long term. (These and other considerations in assessing the Commission's overall performance and across each of its five output groups are discussed in appendix B.)

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

Influence on government policy making

A general indicator of the Commission's performance was provided by the Parliamentary Secretary to the Treasurer when issuing the Government's Statement of Expectations for the Productivity Commission in May 2007:

At the outset, I would like to make it clear that the Government is very pleased with the overall performance of the Commission. The advice provided by the Commission is balanced, objective and thorough. (Pearce 2007b)

Government decisions on the Commission's inquiry reports and responses to government-commissioned research studies reflect their usefulness to the Government, Parliament and the broader community. During the year the Australian Government announced the following decisions on Commission reports:

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- The Government supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services, including the recommendation to amend Part IIIA of the Trade Practices Act to restore the interpretation prevailing before the Federal Court decision upholding the declaration of the domestic airside services at Sydney Airport.
 - In its response to the Commission's report on the conservation of Australia's historic heritage places, the Government stated that it agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing. However, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. A mix of other recommendations was accepted.
 - The Australian Government endorsed the Commission's overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making. However, it rejected the broad policy framework recommendations in the Commission's report on waste management. The Commonwealth also noted that the States have prime responsibility for domestic waste management policy. Although it would raise some of the Commission's recommendations in the Environment Protection and Heritage Council, policy action in areas such as landfill regulation would be left to individual jurisdictions.
 - In its draft report on Tasmanian freight subsidy schemes, the Commission advised that it could find no sound economic rationale for providing freight assistance to particular Tasmanian shippers. Further, modelling commissioned by the Tasmanian Government demonstrated that the schemes benefit Tasmania, but at a small net cost to the Australian community. The Commission's draft proposal was that the Tasmanian Freight Equalisation Scheme be phased out and the Tasmanian Wheat Freight Scheme abolished. In September 2006 the Prime Minister announced that both schemes would continue. The Commission accordingly focused its final report on reforms which would improve the efficiency and effectiveness of the schemes. The Government accepted the findings and substantive recommendations in the Commission's final report.
 - In noting his opposition to the position on consumer product safety regulation adopted by the majority on the Ministerial Council on Consumer Affairs, the Parliamentary Secretary to the Treasurer stated:

While the Productivity Commission did endorse regulatory harmonisation, it favoured the 'single law, single regulator' model. I want to say ... that I also favour this approach. When it comes to product safety, I strongly agree with the Commission when it says that this approach will provide the best outcomes for both consumers and business. (Pearce 2007a)

Cross-jurisdictional support for Commission proposals in the past year is evident in COAG and other responses.

- In April 2007 COAG broadly endorsed the reform blueprint proposed by the Commission in its report on road and rail freight infrastructure pricing. Further, COAG accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode.
- Consistent with the Commission's report on the feasibility of, and reporting framework options for, performance benchmarking of Australian business regulation, COAG agreed to proceed to the second stage of the study to benchmark the compliance costs of regulation.
- In reporting on progress in implementing the National Water Initiative, the National Water Commission (2007) noted that the Commission's study, *Rural Water Use and the Environment: The Role of Market Mechanisms*, prepared for the COAG Water Trading Group, 'is a useful input into investigations of regulatory measures to manage environmental externalities'.

Governments do not always accept the Commission's advice or may reject it initially. For example, although initially deferring consideration of a range of Commission recommendations on design elements for workers' compensation schemes, the Government subsequently drew on the Commission's recommendations for a minimum benchmark to define work-related fatalities, injury and disease and the coverage of journeys to and from work and recess breaks in formulating its Safety, Rehabilitation and Compensation and Other Legislation Amendment Bill 2006. Furthermore, following the Commission's 2004 report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, the Minister has steadily expanded self insurance arrangements under the Commonwealth's Safety, Rehabilitation and Compensation Act to 18 firms.

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

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 policy debates in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

Furthermore, the impact of the Commission's work on policy debates and outcomes can extend over several years. Examples from the past year include the wide use of

the Commission's 2004 inquiry report on the affordability of housing for first home buyers in Federal and State parliamentary debate, policy documents of the major parties preceding the 2007 federal election, the IMF, industry groups and the media; and continuing use of the Commission's reports on gambling (1999) and broadcasting (2000) and analysis of single desk marketing (2000) in parliamentary and wider community debate (box B.2).

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 2006-07 sittings of the *Federal Parliament*:

- 60 Members and 42 Senators referred to 35 different Commission reports or inquiries, or to the Commission's role in policy processes
- in around three-quarters of the 218 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 2 per cent of mentions were critical of the particular finding, report or Commission attribute referred to
- Commission inquiries and reports which featured most prominently in mentions were those on science and innovation, the Report on Government Services, on national frameworks for workers' compensation and OHS, and on broadcasting.

In addition, there were around 150 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2006-07. The Commission was mentioned in the proceedings of 16 different committees, most prominently in proceedings of the Senate Standing Committee on Community Affairs, the Senate Standing Committee on Economics (but excluding its Estimates work), the Senate Standing Committee on Employment, Workplace Relations and Education, the House of Representatives Standing Committee on Economics, Finance and Public Administration and the House of Representatives Standing Committee on Health and Ageing. The most frequent mentions were to the Report on Government Services and the reports on public support for science and innovation and on Australia's health workforce.

Thirty one recent parliamentary committee reports referred to 40 different Commission inquiries or research (table B.1). Four federal parliamentary committees either endorsed Commission recommendations or proposed new tasks for the Commission, including an inquiry on the cost effectiveness of law enforcement bodies and expanded reporting in the Overcoming Indigenous Disadvantage report (pp. 100–1).

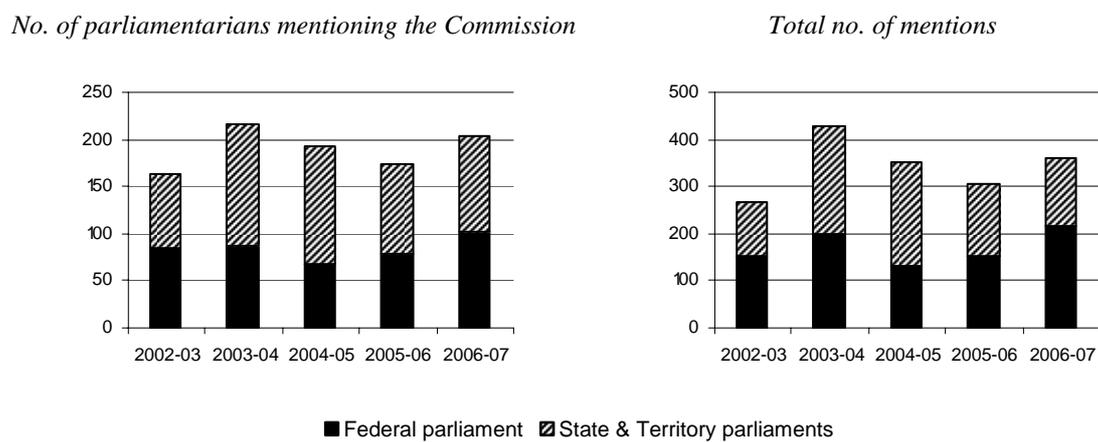
Some 23 Parliamentary Library reports in 2006-07 referred to a variety of Commission inquiry and research reports, as well as to the reports on government services and Indigenous disadvantage (table B.2). Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

Commission inquiry and research reports, from this and previous years, were used extensively in debate and questions by *State and Territory parliamentarians*. During the 2006-07 sittings of the eight State and Territory parliaments:

- 102 members referred to 20 different Commission publications or inquiries, the Report on Government Services, Chairman’s speeches or to the Commission’s role in policy processes
- in nearly 80 per cent of the 143 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with 3 per cent of mentions being critical
- nearly 40 per cent of mentions were to the Report on Government Services, with the Commission’s reports on Australia’s health workforce, first home ownership and gambling also featuring prominently.

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

Figure 2.3 Mentions of the Commission in Australian parliaments, 2002-03 to 2006-07



Other indicators of policy impact

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

-
- use of Commission analysis in inquiry reports and commissioned-research studies during the year by the Treasurer, Ministers, the Commonwealth budget papers, the Government's *Intergenerational Report 2007*, the Leader of the Opposition and Shadow Ministers, including Commission reports on gambling, the economic implications of an ageing Australia, the economic impacts of migration, Australia's consumer product safety system and first home ownership
 - reference to the Commission's report on the economic implications of an ageing Australia by the IMF, NSW Treasury, industry groups and the Australian Council of Trade Unions, and use of the Commission's review of national competition policy in COAG-related documents, the report of the Energy Reform Implementation Group and by others
 - the use being made of the Report on Government Services by central and line government agencies, State Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
 - the strongly supportive feedback from governments and Indigenous people and organisations on the 2007 *Overcoming Indigenous Disadvantage* report and requests for briefings on it; the adoption of its framework by jurisdictions; use of the report by the Aboriginal and Torres Strait Islander Social Justice Commissioner, as well as by community and business groups; and the Chairman's presentation on the report to the second OECD World Forum in Istanbul in June 2007 (Banks 2007)
 - use of the Commission's GTE financial performance report by the Treasurer, State Auditors-General, the Special Commission of Inquiry on Sydney Ferries and in WTO and OECD work
 - the strengthening of regulatory impact analysis through the advisory, guidance and training functions of the Office of Best Practice Regulation and reference to its compliance reporting by the Government, Opposition and international bodies
 - the use made by the Prime Minister, Ministers, the Opposition, State Treasurers, government departments, the Reserve Bank, review bodies, industry and community groups, the WTO, OECD and the IMF of a diverse range of Commission supporting research outputs and, in particular, its evaluation of the potential benefits of the National Reform Agenda; productivity analysis; its submission on emissions trading; analysis of labour market issues; sectoral studies of Australian agriculture, manufacturing and services; assistance estimates and modelling methodologies; and speeches by the Chairman.

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it accepted in 2006-07 to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a rolling program of briefings for State and Territory governments on the

Commission's work, presentations and visits were made to Queensland and South Australia in 2006-07, and visits to other jurisdictions are scheduled throughout 2007-08. The Commission also responded to requests from visiting officials and delegations from China, Indonesia, Japan, Thailand, Vietnam, Singapore, Chile, Iran, Kazakhstan, Botswana, New Zealand, the UK, US, France, the OECD, WTO and IMF for briefings on the Commission's work and its role in policy advisory processes, and for 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 2006-07, 32 editorials in seven major metropolitan newspapers drew on the findings or recommendations in 25 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on the potential benefits of the National Reform Agenda and on public support for science and innovation together accounted for more than one-quarter of all mentions. However, editorialists also drew on the analysis in a wide range of other inquiry and research reports (including those on heritage, rural water, GTE performance, single desk marketing, industry productivity estimates and analysis, government services and Indigenous disadvantage) or referred to the Commission's role or potential role in contributing to policy development. The Commission rated an average of nearly 77 mentions a month in electronic media and an average of 99 mentions a month in print media in 2006-07. The Commission's science and innovation study, its airport services pricing inquiry and the 2007 Report on Government Services received the most coverage.

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

Associated reporting

Management and accountability information for 2006-07 is reported in appendix A. The audited financial statements for the Commission are contained in appendix G. In response to the suggestion by the Senate Standing Committee on Economics (2007), the coverage of compliance index at attachment A6 has been expanded to include specific reporting requirements in the Productivity Commission Act.

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

- *Best Practice Regulation Report 2006-07*, which assesses compliance by departments and agencies with the Australian Government's requirements for

the making and review of regulation, reports on the activities of the Office of Best Practice Regulation and provides information on developments in regulatory policy in Australia and internationally

- *Trade & Assistance Review 2006-07*, which reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.

APPENDICES

A Management and accountability

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

Overview

Role and structure

The Commission — established under the *Productivity Commission Act 1998* — is the Australian Government's principal review and advisory body on microeconomic policy and regulation. Information about the Commission's objectives is contained in the overview to chapter 2. Further information on the Commission's role is available on its website and in its first annual report (PC 1998, pp. 25–36).

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

The Commission's structure and senior staff at 30 June 2007 are shown in figure A.1.

Commissioners

At 30 June 2007 there were nine Commissioners, including the Chairman. Six Commissioners were part-time appointments.

Commissioner Tony Hinton retired on 26 March 2007.

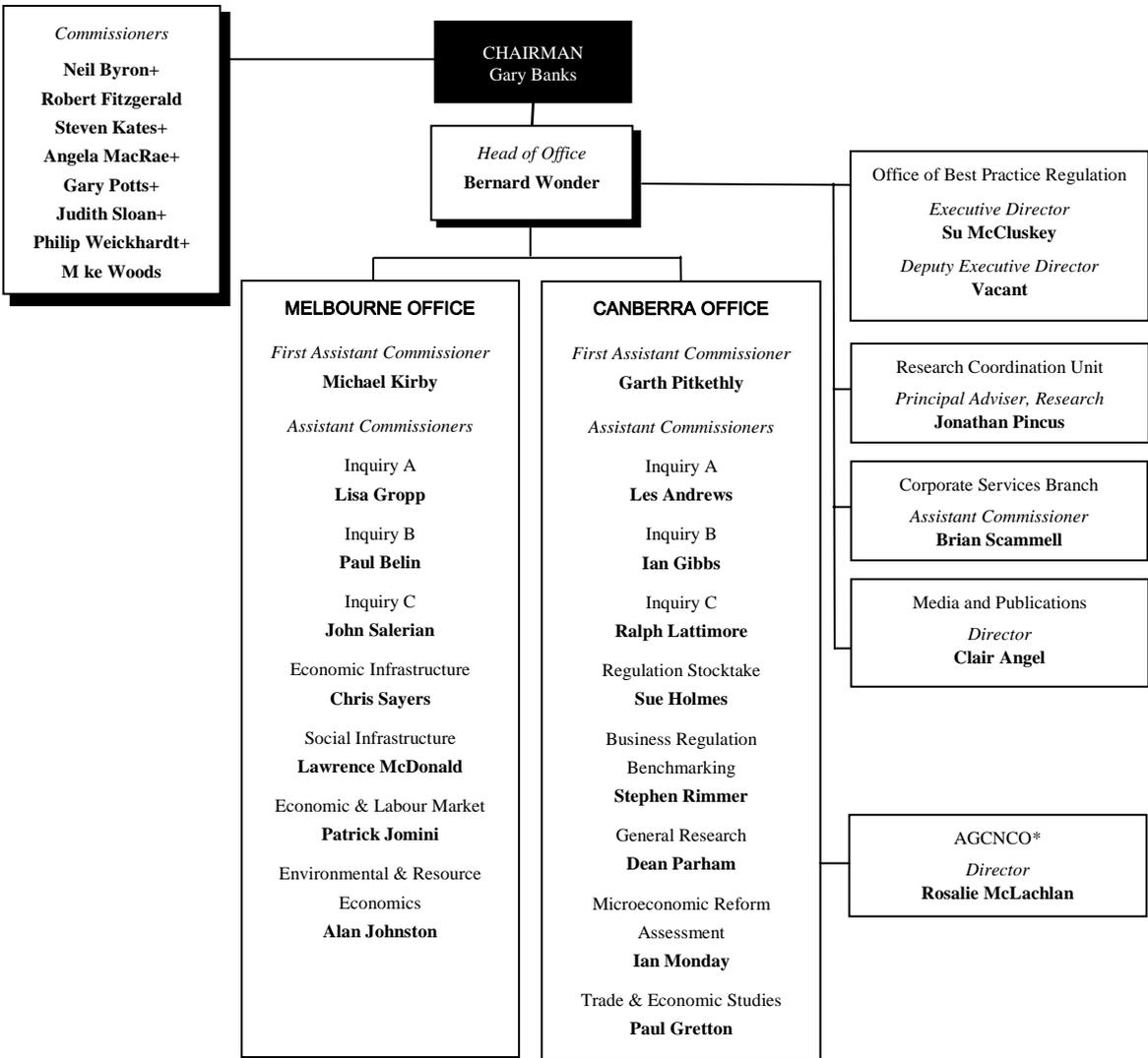
A number of appointments and re-appointments were made during the year.

Dr Neil Byron was re-appointed as a Commissioner from 17 April 2007 for five years. Dr Byron's appointment is as a part-time Commissioner as opposed to his previous appointments which were on a full-time basis.

Ms Angela MacRae was appointed on 19 March 2007 as a part-time Commissioner for three years. Ms MacRae’s career has included appointments with the Australian Public Service, the New Zealand Treasury and the accounting body, CPA Australia. She has also worked as an independent consultant focusing on issues relating to small to medium sized businesses and was a member of the Taskforce on Reducing Regulatory Burdens on Business chaired by Gary Banks.

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

Figure A.1 Productivity Commission structure and senior staff, 30 June 2007



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

Associate Commissioners

At 30 June 2007 two Associate Commissioner appointments were current (table A1.2 of attachment A1).

On 15 March 2007 Professor Cliff Walsh was appointed on a part-time basis for the duration of the research study on local government revenue raising capacity. Professor Walsh is Professor Emeritus at Adelaide University. He has had a long and distinguished academic career, including a period as Director of the Federalism Research Centre at the Australian National University. He has previously held appointments as an Associate Commissioner.

On 15 March 2007 Dr Matthew Butlin was appointed on a part-time basis for the completion of the first phase of the annual review of regulatory burdens on business, focusing on the primary sector. Dr Butlin has held several senior positions in the Australian Public Service and the corporate sector, most recently with Newcrest Mining.

Associate Commissioner appointments completed during 2006-07 are listed in table A1.3 of attachment A1.

Staff

The average staffing level during 2006-07 was 202 compared to 193 in 2005-06.

The Commission recruited 37 staff during the year, including six through its graduate recruitment program. Staff turnover was approximately 18 per cent.

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

Outcome, outputs and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 26 — through the provision of five mandated outputs, are summarised in table A.1. Further information on these matters is provided in appendix B.

Table A.1 Financial and staffing resources summary

	<i>Budget 2006-07</i>	<i>Actual 2006-07^a</i>	<i>Budget 2007-08^b</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government commissioned projects	14 145	14 510	14 310
Output 1.2 – Performance reporting and other services to government bodies	4 710	4 221	4 510
Output 1.3 – Regulation review activities	6 595	3 942	6 718
Output 1.4 – Competitive neutrality complaints activities	200	220	200
Output 1.5 – Supporting research and activities and statutory annual reporting	6 686	6 220	6 760
Total Price of Outputs	32 336	29 113	32 528
Revenue from Government	32 251	32 251	34 443
Revenue from other sources	85	209	85
Total Resources	32 336	32 460	34 528
	<i>2006-07</i>	<i>2006-07</i>	<i>2007-08</i>
Commissioner/staff years (number)	220	202	218

^a Actual expenditure across output groups responds to demands during the year, particularly work commissioned under terms of reference by the Government. ^b As estimated for the 2007-08 Portfolio Budget Statements.

Governance

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

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

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

Key responsibilities

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

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

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

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

Accountability

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

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

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

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- the Chairman also oversees the work of the Office of Best Practice Regulation, which provides quarterly reports on its activities
 - one Commissioner is designated with responsibility for competitive neutrality issues, and also reports to the Commission on a quarterly basis
 - the Head of Office provides Commissioners with a monthly update on key management issues.

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

Risk management and fraud control

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

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. No instances of fraud were reported during 2006-07. The Chairman's certification in respect of fraud control is at attachment A2.

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

Ethical standards

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

- It has embraced the Australian Public Service (APS) Values and Code of Conduct. The Commission's various employment agreements contain a commitment from employees to at all times conduct themselves in a manner consistent with the Values and Code.
- All employees have been provided with a copy of the Values and Code, while new employees receive a copy as part of their induction.

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- Senior managers in particular are encouraged to set an example through the ethical and prudent use of Commonwealth resources.

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

External and internal scrutiny

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

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

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

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2006-07 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2005-06 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix B. In addition, the Senate Standing Committee on Economics (2007) commented that the Commission's 2005-06 Annual Report complied with statutory requirements but suggested that the compliance index be expanded by referring to specific reporting requirements in the Productivity Commission Act. The compliance index for this annual report is at attachment A.6.

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

Website: The Commission's website continues to grow in importance as a source of information about the current work of the Commission, its publications and other activities. During 2006-07 the Commission commenced a project to improve website content management. The new content management system is scheduled to be implemented in late 2007.

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

- replacement of the PABX in the Commission's Melbourne office
- upgrades to the network infrastructure and data storage
- advances in remote connection for staff.

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

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

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

Management of human resources

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

Workforce planning

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

The Commission regularly considers a range of workforce planning issues associated with the attraction, retention and development of staff. In particular, the Commission has been actively monitoring the age profile of its workforce and is seeking to retain mature aged employees by making available measures such as flexible working arrangements and a willingness to consider superannuation issues for some key employees approaching age 55.

The Commission reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Six new employees were engaged during 2006-07 through the Commission's graduate recruitment program.

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

Remuneration and employment conditions

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

The Commission's 22 Senior Executive Service (SES) employees are all employed under Australian Workplace Agreements (AWAs). SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS SES Remuneration Survey conducted for the Department of Employment and Workplace Relations.

Information on Commissioners and SES employees who received total remuneration of \$130 000 or more is set out in Note 12 to the Financial Statements (appendix G).

Two non-SES employees have negotiated AWAs.

During the year a new collective agreement was negotiated with the Commission's employees under the *Workplace Relations Act 2006*. The agreement has a nominal expiry date of 20 February 2010. The levels of remuneration and terms and conditions of employment of approximately 170 employees are covered by the Commission's collective agreement.

As in previous agreements, there is a strong emphasis placed on performance outcomes as the means of achieving remuneration increases. The agreement also includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding work environment for employees.

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

Performance management and pay

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

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

Ahead of each appraisal round — which occurs at six monthly intervals — senior staff attend 'context setting' meetings to promote a consistent approach to the appraisal process and outcomes.

Training is conducted for new employees and new managers to ensure employee readiness for the appraisal round. In addition, during the past year training sessions were provided to all managers to hone their skills on delivering performance feedback to their employees. During the next year it is planned to deliver training for all employees in receiving performance related feedback.

Appraisal outcomes influence salary advancement and performance bonuses. Under the collective agreement, bonuses of 3 per cent of salary are paid to those

employees who achieved the highest performance rating. For SES employees, somewhat higher bonuses are able to be achieved, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. For Principal Executive Offices, bonuses of up to 15 per cent of total remuneration are available within the Remuneration Tribunal framework.

Performance bonuses payable for 2006-07 are summarised in table A.2.

Table A.2 Performance bonuses payable for 2006-07

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	10	10 748	1 075
Staff Level 2	7	6 360	909
Staff Level 3	18	26 108	1 450
Staff Level 4	20	37 489	1 874
SES	22	201 292	9 150
Principal Executive Officers	8	91 173	11 397
Total	85	373 170	4 390

Consultative arrangements

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The PCCC comprises five elected employee representatives and four management representatives, with union representation possible at the invitation of the Committee's employee representatives.

The PCCC is suspended during the negotiations for a new collective agreement as all employee consultations during this period are carried out by the negotiating committee. The negotiating committee met on 13 occasions between June 2006 and October 2006. Employees voted in favour of the new collective agreement in February 2007. The PCCC reconvened in April 2007 and met on the one occasion before the end of the year to discuss a range of workplace issues, including the implementation of the new collective agreement.

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

The Commission also undertakes a biennial staff opinion survey. The survey seeks staff views on a range of organisational and management issues, designed to help identify areas where current practices could be improved and ways to provide a

better working environment for staff. The next survey is scheduled to be conducted in 2007-08 and will have a stronger focus on employee engagement.

Learning and development

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

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

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

Recorded expenditure on learning and development in 2006-07 was 2 per cent of the annual salary budget, the same as the previous year. This expenditure related to:

- 168 employees who undertook a total of 559 days of specific training and development
- 24 Staff Level 1 employees and 40 Staff Level 2 employees who attended two-day general development programs
- 10 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications
- one employee undertaking the Masters of Public Administration delivered by the Australia and New Zealand School of Government.

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

Occupational health & safety (OHS)

An OHS Committee oversees the Commission's health and safety program. Committee membership includes health and safety representatives and staff observers from both offices. The Committee met three times during 2006-07.

Consultation with employees on new health and safety arrangements commenced during 2006-07, following changes to OHS legislation during the year. The new arrangements are expected to be in place early in 2007-08.

New OHS activities during the year included:

- vision health and awareness seminars
- BeyondBlue seminars on depression
- First Aid Officer briefings on the Commission's Pandemic Plan
- reception and relief employee refresher training on emergency procedures
- learn to touch type software package
- safe mail handling procedures for administrative employees
- review of ergonomic assessment procedures related to induction and injury management with the Commission's Rehabilitation Case Managers and Ergonomists.

Ongoing OHS activities during the year included:

- Commission funded flu vaccinations (with a take-up of around 42 per cent of employees)
- ergonomic work station assessments (77 were completed including 40 as part of the induction program. They are provided for all new employees as well as existing employees who require advice, particularly after a workplace relocation.)
- regular workplace hazard inspections conducted by members of the OHS Committee
- desk calendars for all employees promoting emergency evacuation and threat procedures
- the opportunity for employees to complete working hours questionnaires
- screen based equipment eyesight testing.

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

No formal OHS investigations were conducted during the year and the Commission was not required to give any notices under section 68 of the *Occupational Health and Safety Act 1991*. No notices under sections 29, 46 or 47 of that Act were given to the Commission during 2006-07.

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation rate. The Commission's rate for 2006-07 was assessed at approximately one-third of the rate for the whole-of-Australian Government pool.

Employee Assistance Program

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. The service is provided by the OSA Group. Fifteen employees or their families utilised the service in 2006-07.

Workplace diversity

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

A working group was established during 2006-07 to examine possible barriers to the employment and promotion of females in the Commission and ways to address the current imbalance. A plan has been developed to implement measures in response to the working group's findings.

A mature-age employees policy has been introduced to optimise the contribution and job satisfaction of mature-aged employees.

Commonwealth Disability Strategy

The Commonwealth Disability Strategy is designed to help agencies improve access for people with disabilities to their services and facilities. Attachment A3 provides a summary of the Commission's performance in this area during 2006-07.

Financial performance

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

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

The operating result for 2006-07 was a \$3.3 million surplus (\$0.7 million in 2005-06). During 2006-07, additional funding was provided to enable the Commission to implement aspects of the Government's regulation reform agenda, as outlined in the joint media statement on 12 October 2005 by the Prime Minister and Treasurer in response to the report *Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business*. Total appropriations and other income increased to \$32.5 million in 2006-07 (\$28.5 million in 2005-06).

Operating expenses also increased in 2006-07 to \$29.1 million (\$27.9 million in 2005-06). The major expenses in 2006-07 were \$22.3 million in respect of employee expenses, \$6.2 million relating to supplier payments, and \$0.6 million in asset depreciation and amortisation.

Table A.1 provides a summary of financial and staffing resources by output. The audited financial statements for 2006-07 are shown in appendix G.

Other information

Purchasing

The Commission applies the *Commonwealth Procurement Guidelines*.

The Commission's purchases of goods and services during 2006-07 were consistent with the 'value-for-money' principle underpinning those guidelines.

Consultancies

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

During 2006-07, 25 new consultancy contracts were entered into involving total actual expenditure of \$126 369. In addition, three ongoing consultancy contracts were active during the 2006-07 year, involving total actual expenditure of \$103 114. Table A.3 provides information on expenditure on consultants in the five years to 2006-07.

Further information on consultancies, as required by government reporting requirements, is provided in attachment A4. Information on expenditure on contracts and consultancies is also available on the AusTender website.

Table A.3 Expenditure on consultants: 2002-03 to 2006-07

	2002-03	2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	496	251	249	308	229

Special payments

The Commission made a number of special payments during 2006-07. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium memberships: \$23 603 for membership of the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It gives the Commission early access to database updates that are needed in its research, priority access to model training, and input to the future direction of model and database development.

Research partnerships: \$16 500 to the University of Melbourne (MIAESR) for an ARC partnership project on the evolution of Australian enterprises, 1990 to 2007.

Conference sponsorships: \$5500 for the 2007 AARES 51st Annual Conference; \$5000 for the Tasman Transparency Group Conference/Lowy Institute; \$3000 for the 1st General Conference of the International Microsimulation Association; \$2500 for the Australian Labour Market Workshop run by the University of Melbourne (MIAESR); \$2200 for the University of Western Australia PhD Conference 2007; and \$2000 for the Institute of Public Administration Australia National Roundtable on Federalism.

Awards: \$1200 each to the top 2006 student, Economics Honours, at Monash University (R H Snape Productivity Commission Prize) and \$1000 to the top 2006 student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize).

Legal services

Total expenditure on legal services in 2006-07 was \$22 944. Further details are published on the Commission's website, in accordance with *Legal Services Directions 2005* issued by the Attorney-General.

Ecologically sustainable development (ESD)

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

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

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

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

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen have been provided in past annual reports. The 2006 inquiry on waste management and the government-commissioned research study on rural water use and the environment (completed in August 2006) are further examples of policy advice which integrates complex economic, social and environmental considerations.

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

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

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

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

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

During 2006-07 the Commission recorded energy usage of 10 715 MJ/person/annum against the Government's updated energy intensity portfolio target for tenant light and power for office buildings, to be achieved by June 2011, of 7,500 MJ/person/annum.

Freedom of information

No requests were received in 2006-07 for access to information under the *Freedom of Information Act 1982*. A statement encompassing formal reporting requirements is provided in Attachment A5.

Advertising and market research

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

A total of \$160 998 was paid for advertising (including recruitment advertising) in 2006-07 to HMA Blaze Pty Ltd.

Publications and submissions

Appendix F lists all the Commission's publications in 2006-07.

Annual reporting requirements and aids to access

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

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

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

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

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

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

This annual report can be found at the above internet address.

Inquiries about any Commission publication can be made to:

Director
Media and Publications Section
Productivity Commission
PO Box 80
BELCONNEN ACT 2616
Telephone: (02) 6240 3239
Facsimile: (02) 6240 3300

Attachment A1

Commissioner and employee statistics

Table A1.1 **Chairman and Commissioners, 30 June 2007**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2003	19 May 2008
Dr R N Byron (M) (p/t)	17 Apr 2007	16 April 2012
Mr R Fitzgerald AM (C)	29 Jan 2004	28 Jan 2009
Dr S I Kates (M) (p/t)	17 Apr 2006	16 Apr 2009
Ms A MacRae (M) (p/t)	19 Mar 2007	18 Mar 2010
Mr G R Potts (C) (p/t)	17 Apr 2006	16 Apr 2009
Prof J Sloan (M) (p/t)	17 Apr 2006	16 Apr 2010
Mr P Weickhardt (M) (p/t)	4 Dec 2003	3 Dec 2008
Mr M C Woods (C)	17 Apr 2006	16 Apr 2011

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

Table A1.2 **Part-time Associate Commissioners, 30 June 2007**

	<i>Inquiry/Study</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Dr M W Butlin	Annual Review of Regulatory Burdens on Business	15 Mar 2007	30 Nov 2007
Prof C Walsh	Local Government Revenue Raising Capacity	15 Mar 2007	30 April 2008

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

Table A1.3 **Part-time Associate Commissioners completing appointments during 2006-07**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr P L Coghlan	Standard Setting and Laboratory Accreditation	4 Apr 2006	15 Dec 2006
Prof C Walsh	Road and Rail Freight Infrastructure Pricing	4 Apr 2006	15 Feb 2007

Table A1.4 **Employees^a by location and gender, 30 June 2007**

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total^a</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	0	0	0	1	1	0	1	1
SES Band 2	0	2	2	1	1	2	1	3	4
SES Band 1	1	7	8	1	8	9	2	15	17
Staff Level 4	7 ^b	16	23	6 ^b	19	25	13	35	48
Staff Level 3	14	10	24	6	15	21	20	25	45
Staff Level 2	17	10	27	7 ^c	12	19 ^c	24	22	46
Staff Level 1	20	5	25	9	4	13	29	9	38
Total	59	50	109	30	60	90	89	110	199
Corresponding totals at 30 June 2006	57	57	114	31	54	85	88	111	199

^a Excludes 8 inoperative employees at 30 June 2007 and 7 at 30 June 2006. ^b Includes 6 employees acting. ^c Includes 1 employee acting.

Table A1.5 Employees^a by employment status and gender, 30 June 2007

<i>Level</i>	<i>Female</i>			<i>Male</i>			<i>Total^a</i>		
	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	1	0	1	3	0	3	4	0	4
SES Band 1	2	0	2	15	0	15	17	0	17
Staff Level 4	9	4 ^b	13	33	2	35	42	6	48
Staff Level 3	17	2	19	24	1	25	41	3	44
Staff Level 2	18	6	24	22	0	22	40	6	46
Staff Level 1	24	6	30	8	1	9	32	7	39
Total	71	18	89	106	4	110	177	22	199
Corresponding totals at 30 June 2006	68	20	88	107	4	111	175	24	199

^a Excludes 8 inoperative employees at 30 June 2007 and 7 at 30 June 2006. ^b Includes 2 non-ongoing employees.

Table A1.6 Employees by level and reason for separation, 2006-07

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity</i>			<i>Other</i>	<i>Total</i>
				<i>Retirement</i>	<i>VRP^a</i>			
SES	0	0	1	0	0	1	2	
Staff Level 4	0	0	8	0	0	2	10	
Staff Level 3	0	4	7	0	0	2	13	
Staff Level 2	0	4	5	0	0	1	10	
Staff Level 1	0	0	1	0	1	0	2	
Total	0	8	22	0	1	6	37	
Corresponding totals at 30 June 2006	2	5	17	0	1	11	36	

^a Voluntary Redundancy Package.



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From the Chairman's Office

6 August 2007

Annual Report 2006/07 – Fraud Control Certification

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

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

Gary Banks

Attachment A3

Commonwealth Disability Strategy (CDS): outcomes against performance indicators

Performance requirements of the 'policy adviser' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
New or revised program/policy proposals assess impact on the lives of people with disabilities prior to decision	Percentage of new or revised policy/program proposals that document that the impact of the proposal was considered prior to the decision making stage	<p>Commission policies have checklists that cover the consideration of access (including disability) matters. The extent to which such considerations develop varies from inquiry to inquiry.</p> <p>Project evaluation templates have a section included for comments on disability issues as defined in our Disability Action Plan. Any comments are monitored to assess if procedures need to be further reviewed. The Commission's Disability Action Plan is currently being reviewed.</p> <p>The Commission provides the Secretariat for the Steering Group Report of Government Services. In the 2007 report's Community Services Section information was reported for the first time on disability prevalence rates among Indigenous people and on a program aimed at younger people with a disability in residential aged care facilities.</p> <p>The Commission continues to promote the awareness of issues related to people with disabilities to all new employees through its induction program and briefings to other employees as appropriate. Induction procedures are currently being reviewed.</p>
People with disabilities are included in consultations about new or revised policy/program proposals	Percentage of consultations about new or revised policy/program proposals that are developed in consultation with people with disabilities	<p>Commission inquiries are open to the public. Where appropriate, consultation is facilitated by:</p> <ul style="list-style-type: none"> • advertisements in the national press inviting submissions • development of interested parties lists • TTY machine available and promoted • website conforms to mandatory disability access requirements

(continued next page)

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
		<ul style="list-style-type: none"> portable hearing loop available for public hearings copies of reports and circulars available in Braille, large print and audio on request checklist on accessibility at venues.
Public announcements of new, revised or proposed policy/program initiatives are available in accessible formats for people with disabilities in a timely manner	Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats	100 per cent available on website. The 'Accessibility' page on the website was updated in 2006-07. The website conforms with the W3C Web Content Accessibility Guidelines 1.0 at level "A".
	Time taken in providing announcements in accessible formats	Between one and two weeks if requested.

Performance requirements of the 'employer' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Employment policies, procedures and practices comply with the requirements of the <i>Disability Discrimination Act 1992</i>	Number of employment policies, procedures and practices that meet the requirements of the <i>Disability Discrimination Act 1992</i>	The Commission's Collective Agreement, Equity and Diversity Plan, Disability Action Plan and related policies and procedures have been developed with cognisance of the requirements of the Act.
Recruitment information for potential job applicants is available in accessible formats on request	Percentage of recruitment information requested and provided in: <ul style="list-style-type: none"> accessible electronic formats accessible formats other than electronic. Average time taken to provide accessible information in: <ul style="list-style-type: none"> electronic format 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. Dependent on request, none received to date. Information has been sourced on the procedures for requesting alternative formats such as Braille and audio and is available should a request be received.

(next page)

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Agency recruiters and managers apply the principle of 'reasonable adjustment'	Percentage of recruiters and managers provided with information on 'reasonable adjustment'	<p>Where relevant, selection panels are provided with this information.</p> <p>Managers receive information as required. Folders containing the list of candidates includes a reference to access and equity considerations, including 'reasonable adjustment'.</p> <p>A register has also been developed to record all requests for information in formats such as Braille and audiocassette. No requests were received during 2006-07.</p>
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	<p>Training nomination forms include a section requesting information on the additional needs of employees. It is monitored by the training administrator. No assistance was requested during 2006-07.</p>
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	<p>Induction programs include information on these issues including our Access and Equity and Disability Action Plan.</p>
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	<p>These issues can be addressed with managers, Harassment Contact Officers, Employee Assistance Program and formally with 'Review of Action' procedures which are available to all employees. No procedures were conducted in 2006-07.</p>

Attachment A4

Consultancies

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

Selection

The Commission selects and engages consultants under the following circumstances:

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

Procedures

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

Purposes

The main purposes for which consultants were engaged in 2006-07 were to provide expert technical advice for a range of projects, referee particular pieces of work, undertake modelling work and provide expert advice.

Consultancies over \$10 000

The following table lists those consultancies let in 2006-07 valued at \$10 000 or more, including the method of selection, the reason for the consultancy and a summary of the overall costs involved. The total figure refers to total value of the contracts let, irrespective of the period of the contract, noting that some contracts are for periods in excess of one year.

Consultancy contracts let in 2006-07 valued at \$10 000 or more

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract Amount</i>	<i>Selection Process (1)</i>	<i>Justification (2)</i>
Government-commissioned projects				
ANU Linda Butler	Investigate using bibliometric data to differentiate output and impact of Australian scientific publications for the study on science and innovation	17 187	3	A
<i>Government-commissioned projects — total</i>		<i>17 187</i>		
Regulation review				
Australian Government Solicitor	Review documentation relating to the request for tender for the Business Cost Calculator Stage 3 development	10 822	3	B
<i>Regulation review — total</i>		<i>10 822</i>		
Supporting research and activities and annual reporting				
Dr Guyonne Kalb, University of Melbourne	Provision of tuition, assistance and quality control services to staff involved in the National Reform Agenda (human capital stream, Melbourne) project	12 220	3	A
<i>Supporting research and activities and annual reporting — total</i>		<i>12 220</i>		
Corporate management and services				
ADX2	Services to evaluate and source a replacement PABX	11 000	3	A
David Jess and Associates	Assist with evaluation services for architectural design and project management of the Canberra office fit-out	15 488	2	C
PKF	Provision of internal audit services	15 840	1	B
<i>Corporate management and services — total</i>		<i>42 328</i>		
Total consultancies		82 557		

1 Procurement Method

1. Open tender
2. Select tender
3. Direct sourcing
4. Panel

2 Reason for contract

- A. Lack of in-house resources and/or specialist skills
- B. Need for an independent evaluation
- C. Benchmarking
- D. More cost effective

3 GST

All figures are GST inclusive.

Attachment A5

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 12 to 18 months 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. Also, the Commission periodically meets with academics in various cities for the same purpose.

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

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

Categories of documents

Principal categories include:

- commissioned projects records including information circulars, issues papers, project guidelines, draft reports, submissions, participant correspondence and public hearing transcripts
- documents relating to infrastructure research and performance monitoring across the Australian Government, States and Territories
- documents relating to national and international benchmarking
- competitive neutrality complaint queries and details of investigations
- documents relating to research on industry and productivity issues
- Regulation Impact Statements and correspondence
- Australian Government 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
- submissions to inquiries undertaken by other organisations.

Facilities for access

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

Documents available from the Commission's website and for purchase from Pirion/J.S. McMillan include:

- the Commission's annual report series
- final inquiry reports, research reports and research papers
- reports by the Steering Committee for the Review of Government Service Provision.

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

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

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

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

Attachment A6

Compliance index

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

	<i>page</i>
Letter of transmittal	III
Table of contents	VII
Index	265
Abbreviations	X
Contact officer	75
Internet addresses	75
Review	
Review by the Chairman and Commissioners	25–54
Role and functions of the Commission	57
Organisational structure	58
Outcome and output structure	92
Where outcome and output structures differ from PBS format	n.a.
Report on performance	
Performance in relation to outputs and contribution to outcomes	47–53, appendix B
Actual performance in relation to performance targets set out in PBS/PAES	appendix B
Narrative discussion and analysis of performance	chapter 2
Performance against service charter customer service standards	63
Discussion of financial performance	70–1
Summary resources table by outcomes	60
Management accountability	
Corporate governance practices	60–3
Senior management committees and their roles	61, 63
Risk management and fraud control measures	62
Fraud control certificate	79
Ethical standards	62–3
Determination of remuneration for SES employees	65
External scrutiny	
Significant developments	63
Judicial decisions and decisions of administrative tribunals	n.a.
Reports by Auditor-General, a parliamentary committee or the Commonwealth Ombudsman	63

	<i>page</i>
Management of human resources	64–70
Effectiveness in managing human resources	64–70
Staff turnover and retention	59
Learning and development	68
Collective Agreement and Australian Workplace Agreements	65–6
Statistics on staffing	77–8
Performance pay	66–7
Assets management	appendix G
Purchasing	71
Consultants	71–2
Legal services	72
Absence of provisions in CTC contracts allowing access by the Auditor-General	n.a.
Contracts exempt from the AusTender	n.a.
Performance in implementing the Commonwealth Disability Strategy	80–2
Financial statements	appendix G
Other information	
Occupational health and safety	68–70
Freedom of Information statement	85–6
Advertising and market research	74
ESD and environmental performance	73–4
Discretionary grants	72

Compliance with the Productivity Commission Act

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

s.10(1) Commission operations	chapter 2 and appendix A
s.10(2) matters referred to the Commission	appendix C
s.10(4) competitive neutrality complaints	p. 34 and appendix D

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

- *Best Practice Regulation Report 2006-07*
- *Trade & Assistance Review 2006-07*

B Program performance

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

The Commission's five outputs streams 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 sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's outputs and related performance in 2006-07.

Objectives for performance assessment

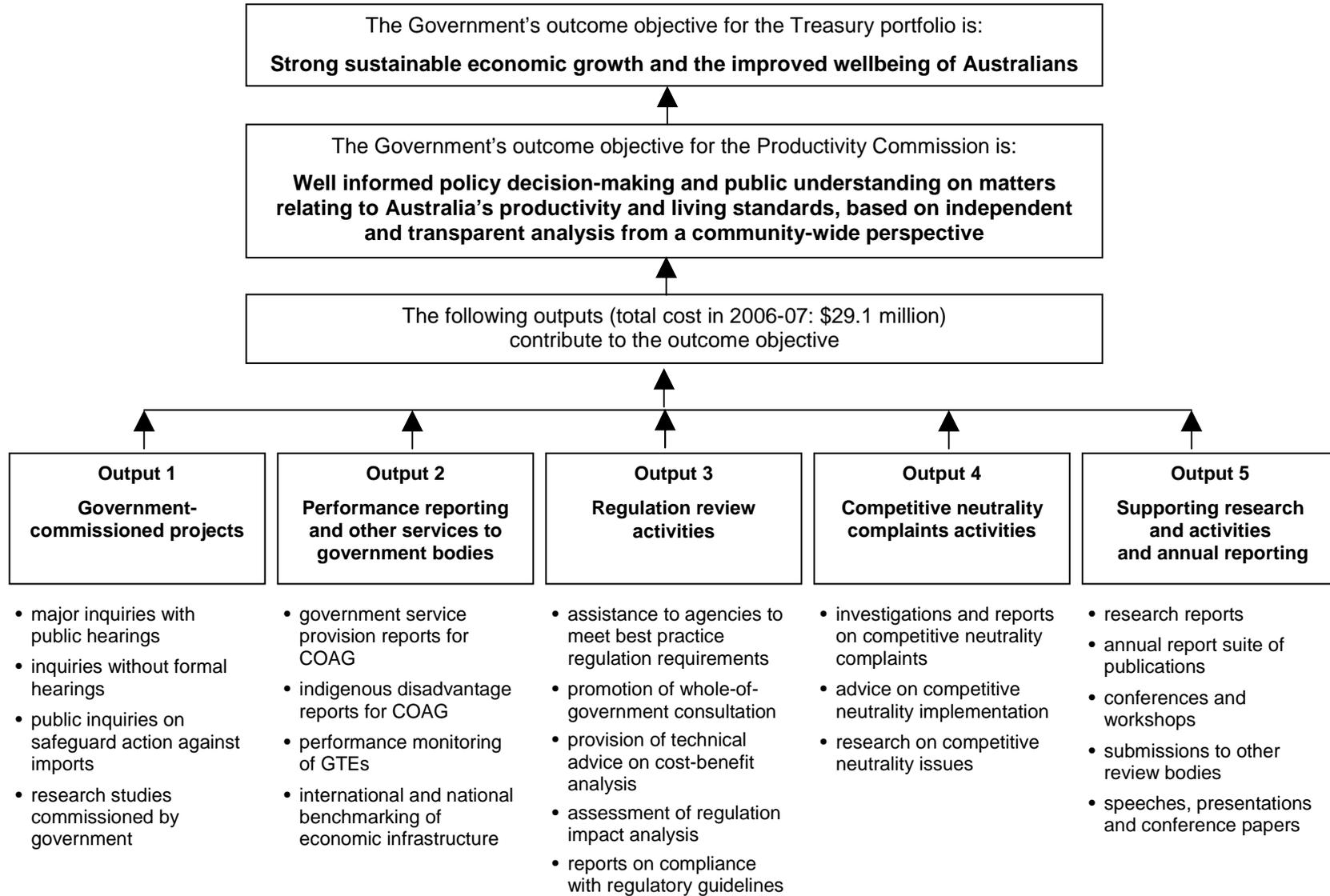
The Government's single outcome objective for the Commission against which the Commission's overall performance is to be assessed is:

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

The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual-based outcomes and outputs framework, 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
- supporting research and activities and statutory annual reporting (figure B.1).

Figure B.1 **Productivity Commission outcome/output framework 2006-07**



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

Strong sustainable economic growth and the improved wellbeing of Australians.

Commission activities

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

- undertaking individual projects specifically commissioned by government (Output 1)
- meeting standing research, investigatory and advisory functions nominated by government (Outputs 2, 3 and 4)
- research undertaken in response to emerging needs for policy-relevant information and enhanced analytical frameworks, and for building the Commission's capacity to respond to the policy priorities of government (Output 5).

Government-commissioned projects have individual terms of reference. *Public inquiries* involve extensive public consultation — such as visits, submissions and public hearings — to help identify the relevant issues, assist in the analysis of information and the development of policy options, and to obtain views on the Commission's analysis and proposed recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'Position Paper' as part of this consultation process before finalising its report to government. Inquiry reports are tabled in Parliament. *Commissioned research studies* are generally concerned with assembling policy-relevant information or analysis of policy options for tasks that are narrower in scope, and required in shorter timeframes, than inquiries. They typically involve less public interaction than inquiries and no formal public hearings. The Commission adapts its inquiry processes in conducting these studies, although it aims to expose its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

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 Government 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.

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- 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, monitoring and research activities related to regulation review as set out in the 2007 Charter for the Office of Best Practice Regulation (box B.3), together with annual reporting in the *Best Practice Regulation Report* on compliance with the new requirements for regulatory impact analysis contained in the Government's Best Practice Regulation Handbook
 - reports and related activities necessary to meet the Commission's statutory obligation to investigate complaints about the implementation of the Australian Government's competitive neutrality arrangements
 - statutory annual reporting on assistance and regulation affecting industry (published as the *Trade & Assistance Review*) and on industry and productivity performance generally (encompassed in the Commission's Annual Report).

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

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

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

- The suite of three annual reporting publications, as well as Commission Research Papers and submissions to other inquiries or reviews established by government or parliament, present the Commission's views on policy issues.
- Published research by Commission staff aims to provide the information and analysis needed to inform policy discussion within government, parliaments and

the broader community. Such research can provide ‘building blocks’ for policy development.

- Publication of the proceedings of conferences and workshops sponsored by the Commission, and of consultants’ reports to the Commission is also intended to promote and inform discussion on important policy issues. As with staff publications, the views expressed need not reflect the views of the Commission.

Interpreting performance indicators for the Commission

The Commission has sought to demonstrate its effectiveness through a number of performance indicators which are linked to specific outputs and 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.

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

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 and compliance cost assessments, consultation 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

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.

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. Two such Commission inquiry reports are those on gambling (1999) and broadcasting (2000). Other examples from the past year also demonstrate the 'shelf life' of a variety 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, to a significant extent, determined externally. This includes the number and timing of government-commissioned projects, regulation impact analysis assessments and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Government Service Provision is guided by a Steering Committee. As a consequence, the number 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, although the Productivity Commission Act requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports or the nature of the decisions themselves are matters for the Government. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, has enhanced the transparency of government decision making on Commission reports and permitted better assessment of their contribution to public policy making. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing the Commission's contribution to outcomes. All inquiry reports in 2006-07 were tabled within the statutory period.

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

Box B.2 The longer term influence of Commission reports

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

- The Commission's 2004 inquiry report on the affordability of housing for first home buyers continues to serve as a reference point in parliamentary, media and community debate on the issue. Notwithstanding lack of action by the Commonwealth and States on some recommendations, during 2006-07:
 - The Commission's report was referred to in federal parliamentary debate by government, opposition and other Members and Senators on 11 separate occasions. The Minister for Finance and Administration stated that the Commission's report 'was a very good document and a very interesting document' even though its taxation proposals had been rejected (Minchin 2007). The Commission's report was also referred to in debates in the parliaments of NSW, Victoria, South Australia, Western Australia and the ACT on 15 occasions in 2006-07. Media interest in the report spiked in August 2006 and again in July 2007, with some 80 mentions over the 12 month period.
 - The federal Parliamentary Library's Research Note of November 2006 on home loan affordability indicators drew extensively on the cautions about interpretation outlined in the Commission's report. A Briefing Paper on land development in Sydney issued by the NSW Parliamentary Library also drew on the Commission's report (Ohlin 2007).
 - In correcting media misreporting of Treasury documents released under FOI, the Secretary to the Treasury noted that the Treasury endorsed the Commission's conclusions on the longer term impact of stamp duty removal (Henry 2007).
 - The Coalition Government (2007a) referred to the Commission's report in its housing policy statement. The Labor Opposition drew on the report in its Discussion Paper on affordable housing (Rudd et al. 2007b) and elsewhere on the role of improved land release and planning approval procedures in ameliorating price pressures (Swan 2007).
 - Various industry groups drew on the Commission's analysis in their reports on housing affordability or discussion of capital gains tax reform (Urban Development Institute of Australia 2007; SGS 2007; and ACCI 2007). The IMF (2006) 'Article IV' Report also drew on Commission analysis of the tax treatment of housing.
- During 2006-07 there was extensive use of the analysis and recommendations in the Commission's 2000 inquiry report on broadcasting in the Senate Committee report on the Government's package of broadcasting legislation; reference to the report on 16 separate occasions in federal parliamentary debate, including a statement that the report was 'one of the best reference points' (Bowen 2006); and use by the Parliamentary Library in briefing materials.
- The 2000 Staff Research Paper, *Single Desk Marketing: Assessing the Economic Arguments*, was cited extensively in parliamentary debate on the Wheat Marketing Amendment Bill 2006 as well as in newspaper editorials on the single desk marketing arrangements for Australian wheat.

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-based outcomes and outputs 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 the views expressed during public hearings and consultations on its research program.

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

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

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

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

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- providing sufficient details of implementation arrangements and making appropriate use of quantitative modelling — by 58 per cent of respondents on each indicator, although around one third of respondents felt neutral or unable to comment on them.

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

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

The Commission is assessing these survey results and their implications for the ways in which it engages with and responds to the views of the range of potential participants in its work, presents its analysis and conclusions and can enhance the readability of its reports.

The Steering Committee for the Review of Government Service Provision seeks feedback on the usefulness of the Report on Government Services every three years and uses the feedback to increase the accountability of the Review itself. The survey of more than 500 users, undertaken in February 2007, achieved a response rate of 48 per cent, a significant improvement on that achieved in previous years. Seventy eight per cent of respondents were satisfied or very satisfied with the Report. Readers valued the performance information in the service-specific chapters, and the supporting introductory chapters and statistical appendix were widely used. However, an important message from the survey was that improvements to the Report should focus on data issues. Data quality and usefulness received the lowest satisfaction ratings. Improved comparability, better data quality and more timely data were all identified as areas needing improvement. The survey results and the constructive suggestions made by many survey respondents are informing the work of the Steering Committee. The survey feedback is reported further below (p. 136).

Feedback on how departments and agencies viewed the OBPR's performance and the quality of its advice in 2006-07 is reported below (pp. 146-9).

As noted in chapter 2, feedback opportunities provided through email, on-line survey forms and survey forms included in publications and issued to participants in the Commission's public hearings remained little used in 2006-07. Much of the

feedback received through these mechanisms this year was positive. Comments are passed to management and authors for consideration.

Commission outputs and the work of the Federal Parliament

The inquiries and reports which figured most prominently in federal parliamentary debate during 2006-07 were the Commission's reports on science and innovation, broadcasting and national frameworks for workers' compensation and OHS, along with the Report on Government Services. As noted in chapter 2, 60 Members of the House of Representatives and 42 Senators collectively referred to 35 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2006-07 parliamentary proceedings.

Four parliamentary committees endorsed Commission recommendations or recommended new tasks for the Commission.

- In its November 2006 report, *The Blame Game*, the House of Representatives Standing Committee on Health and Ageing recommended that, as a matter of priority, the Department of Health and Ageing undertake the actions specified in the July 2006 COAG response to the Productivity Commission's health workforce inquiry to improve the efficiency and transparency of existing mechanisms to assess changes to the Medicare benefits schedule and strengthen links between the Medical Services Advisory Committee and the Medicare Benefits Consultative Committee.
- The House of Representatives Standing Committee on Economics, Finance and Public Administration report of July 2007, *Australian manufacturing: today and tomorrow*, recommended that the design of the R&D tax concession scheme be examined in the light of the Commission's report on science and innovation.
- In its report *Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007 and four related bills concerning the Northern Territory National Emergency Response* of August 2007, the Senate Standing Committee on Legal and Constitutional Affairs recommended that:
 - the operation of the measures implemented by the bills be continuously monitored and publicly reported on annually through the Overcoming Indigenous Disadvantage reporting framework
 - the Northern Territory Emergency Taskforce make publicly available its strategic communications plan as well as other operational plans, within six months, and the long-term plans being developed in relation to the intervention, within 12 months; and that information regarding significant revisions to these plans be provided in the Overcoming Indigenous Disadvantage report.

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- The report of the Parliamentary Joint Committee on the Australian Crime Commission *Inquiry into the future impact of serious and organised crime on Australian society* of September 2007 recommended that the Commission inquire into the cost effectiveness and benchmarking of law enforcement bodies and current national arrangements to address serious and organised crime.

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

- Twenty two parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The 31 parliamentary committee reports listed in table B.1 referred to 40 different Commission outputs.
- People appearing at the hearings of parliamentary committees in 2006-07 referred to Commission outputs in more than 28 different topic areas
- Research material provided to parliamentarians during 2006-07 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 20 different Commission outputs (table B.2). These included 15 inquiry and other commissioned research reports (including inquiry reports by the Industries Assistance Commission and Industry Commission), the Report on Government Services and a speech by the Commission's chairman.

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2006-07 the ANAO cited a number of findings from the Commission's 2004 inquiry report *Impacts of Native Vegetation and Biodiversity Regulations* in Audit Report No. 31, *The Conservation and Protection of National Threatened Species and Ecological Communities*; findings on disadvantaged job seekers in the Commission's 2002 Job Network inquiry report in Audit Report No. 32, *Administration of the Job Seeker Account*; and findings from the Commission's 2003 evaluation of the Pharmaceuticals Industry Investment Program in Audit Report No. 46, *Management of the Pharmaceuticals Partnership Program*.

Other Commission outputs referred to in ANAO reports in 2006-07 were the Commission Research Paper, *The Role of Non-traditional Work in the Australian Labour Market*, and the 2001 inquiry report on certain superannuation legislation. In its Audit Report on *Administration of State and Territory Compliance with the Australian Health Care Agreements* the ANAO noted that, along with public hospital performance data provided to the Commonwealth Department of Health and Ageing, the States had to provide somewhat different sets of performance information to the Australian Institute of Health and Welfare and to the Steering Committee for the Review of Government Service Provision. The ANAO considered that there would be benefit in the Department ensuring that its requirements for public hospital data from the States were more closely aligned with other agencies.

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Standing Committee on Environment, Communications, Information Technology and the Arts, <i>Broadcasting Services Amendment (Media Ownership) Bill 2006 (and related legislation)</i> , October 2006	Inquiry Report, <i>Broadcasting</i> , March 2000
Senate Standing Committee on Employment, Workplace Relations and Education, <i>Perspectives on the future of the harvest labour force</i> , October 2006	Research Paper, <i>Trends in Australian Agriculture</i> , June 2005
Senate Standing Committee on Finance and Public Administration, <i>Medibank Private Sale Bill 2006 [Provisions]</i> , November 2006	Industry Commission Inquiry Report, <i>Private Health Insurance</i> , February 1997
House of Representatives Standing Committee on Health and Ageing, <i>The Blame Game: Report on the inquiry into health funding</i> , November 2006	Research Reports, <i>Economics Implications of an Ageing Australia</i> , March 2005 and <i>Australia's Health Workforce</i> , December 2005; Roundtable Proceedings, <i>Productive Reform in the Federal System</i> , April 2006; Conference Proceedings, <i>Health Policy Roundtable</i> , March 2002; Workshop Proceedings, <i>Managed Competition in Health Care</i> , December 2002; Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2006</i>
House of Representatives Standing Committee on Legal and Constitutional Affairs, <i>Harmonisation of legal systems: Within Australia and between Australia and New Zealand</i> , November 2006	Research Reports, <i>Evaluation of the Mutual Recognition Schemes</i> , October 2003, <i>Australian and New Zealand Competition and Consumer Regimes</i> , December 2004 and <i>Review of Australia's Consumer Product Safety System</i> , January 2006; Inquiry Reports, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i> , June 2004 and <i>Review of National Competition Policy Reforms</i> , February 2005
Joint Standing Committee on Foreign Affairs, Defence and Trade, Trade Sub-Committee, <i>Review of Australia-New Zealand Trade and Investment Relations</i> , December 2006	Research Report, <i>Australian and New Zealand Competition and Consumer Protection Regimes</i> , December 2004
Senate Standing Committee on Rural and Regional Affairs and Transport, <i>Water policy initiatives: Final report</i> , December 2006	Research Report, <i>Rural Water Use and the Environment: The Role of Market Mechanisms</i> , August 2006

Senate Standing Committee on Economics, *Petrol Prices in Australia*, December 2006

House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, *Shifting gears: Employment in the automotive components manufacturing industry*, December 2006

House of Representatives Standing Committee on Family and Human Services, *Balancing Work and Family: Report on the inquiry into balancing work and family*, December 2006

Senate Standing Committee on Employment, Workplace Relations and Education, *Safety, Rehabilitation and Compensation and Other Legislation Amendment Bill 2006 [Provisions]*, February 2007

Senate Standing Committee on Rural and Regional Affairs and Transport, *Australia's future oil supply and alternative transport fuels: Final report*, February 2007

House of Representatives Standing Committee on Agriculture, Fisheries and Forestry, *Skills: Rural Australia's Need: Inquiry into rural skills training and research*, February 2007

Senate Standing Committee on Community Affairs, *Funding and operation of the Commonwealth State/Territory Disability Agreement*, February 2007

Senate Standing Committee on Finance and Public Administration, *Transparency and accountability of Commonwealth public funding and expenditure*, March 2007

Industry Commission Inquiry Report, *Petroleum Products*, July 1994

Inquiry Report, *Review of Automotive Assistance*, August 2002; Steering Committee for the Review of Government Service Provision, *Report on Government Services 2006*

Research Report, *Economics Implications of an Ageing Australia*, March 2005; Commission Research Paper, *The Role of Non-traditional Work in the Australian Labour Market*, May 2006; Steering Committee for the Review of Government Service Provision, *Report on Government Services 2006*; Industry Commission Conference Proceedings, *Changing Labour Markets: Prospects for Productivity Growth*, February 1997

Inquiry Report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, June 2004

Inquiry Report, *The Private Cost Effectiveness of Improving Energy Efficiency*, August 2005; Discussion Draft, *Road and Rail Infrastructure Pricing*, September 2006

Research Paper, *Trends in Australian Agriculture*, June 2005

Research Report, *Economic Implications of an Ageing Australia*, March 2005; Roundtable Proceedings, *Productive Reform in the Federal System*, April 2006; Steering Committee for the Review of Government Service Provision, *Report on Government Services, 1999, 2003 & 2006*

Annual Report Series, *Trade & Assistance Reviews*

(continued next page)

Table B.1 (continued)

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Standing Committee on Environment, Communications, Information Technology and the Arts, <i>Conserving Australia: Australia's national parks, conservation reserves and marine protected areas</i> , April 2007	Research Paper, <i>Constraints on Private Conservation of Biodiversity</i> , July 2001
Senate Standing Committee on Economics, Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Bill 2007 [Provisions], May 2007	Research Report, <i>Australian and New Zealand Competition and Consumer Protection Regimes</i> , December 2004
House of Representatives Standing Committee on Legal and Constitutional Affairs, <i>The long road to statehood: Report of the inquiry into the federal implications of statehood for the Northern Territory</i> , May 2007	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage, Key Indicators 2005</i>
Senate Standing Committee on Employment, Workplace Relations and Education, <i>Higher Education Legislation Amendment (2007 Measures No. 1) Bill 2007 [Provisions]</i> , May 2007	Research Report, <i>Public Support for Science and Innovation</i> , March 2007
House of Representatives Standing Committee on Economics, Finance and Public Administration, <i>Servicing our future: Inquiry into the current and future directions of Australia's services export sector</i> , May 2007	Productivity estimates published on the Commission's website; Annual Report Series, <i>Trade & Assistance Review 2004-05</i>
House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, <i>Indigenous Australians at work: Successful Initiatives in Indigenous Employment</i> , June 2007	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2007</i>
House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, <i>Current vacancies: Workforce challenges facing the Australian tourism sector</i> , June 2007	Staff Research Paper, <i>The Role of Training and Innovation in Workplace Performance</i> , December 1999
House of Representatives Standing Committee on Communications, Information Technology and the Arts, <i>Tuning in to Community Broadcasting</i> , June 2007	Inquiry Report, <i>Broadcasting</i> , March 2000

House of Representatives Standing Committee on Economics, Finance and Public Administration, *Australian manufacturing: today and tomorrow: Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom*, July 2007

House of Representatives Standing Committee on Transport and Regional Services, *The Great Freight Task: Is Australia's transport network up to the challenge?*, July 2007

House of Representatives Standing Committee on Science and Innovation; *Between a rock and a hard place: The science of geosequestration*, August 2007

Senate Standing Committee on Employment, Workplace Relations and Education, *Workforce challenges in the transport industry*, August 2007

Parliamentary Joint Committee on Corporations and Financial Services, *The structure and operation of the superannuation industry*, August 2007

Senate Standing Committee on Legal and Constitutional Affairs, *Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007 and four related bills concerning the Northern Territory National Emergency Response*, August 2007

Joint Standing Committee on Migration, *Temporary visas ... permanent benefits: Ensuring the effectiveness, fairness and integrity of the temporary business visa program*, August 2007

House of Representatives Standing Committee on Environment and Heritage, *Sustainability for survival: creating a climate for change – Inquiry into a sustainability charter*, September 2007

Research Report, *Public Support for Science and Innovation*, March 2007; Annual Report Series, *Trade & Assistance Review*, 2005-06 & 2000-01; Research Paper, *Trends in Australian Manufacturing*, April 2003; Staff Working Papers, *Econometric Modelling of R&D and Australia's Productivity*, April 2006 and *Can Australia Match US Productivity Performance?*, March 2007

Inquiry Report, *Road and Rail Freight Infrastructure Pricing*, December 2006; Inquiry Draft Report, *Tasmanian Freight Subsidy Arrangements*, September 2006; Chairman's speech 28 April 2006; *Supplement to Inquiry Report Progress in Rail Reform*, November 1999

Submission to the Prime Ministerial Task Group on Emissions Trading, March 2007

Inquiry Report, *Road and Rail Freight Infrastructure Pricing*, December 2006

Inquiry Report, *Review of the Superannuation Industry (Supervision) Act 1993 and Certain other Superannuation Legislation*, December 2001

Steering Committee for the Review of Government Service Provision, *Overcoming Indigenous Disadvantage: Key Indicators 2005*

Mentions supporting research project currently underway on skill shortages in Australia

Inquiry Report, *Review of National Competition Policy Reforms*, February 2005

Table B.2 Parliamentary Library use of Commission outputs in 2006-07

<i>Parliamentary Library output 2006-07</i>	<i>Commission output used</i>
<i>Tax Laws Amendment (Repeal of Inoperative Provisions) Bill 2006, Bills Digest No. 14, August 2006</i>	Chairman's speech <i>The good, the bad and the ugly: economic perspectives on regulation in Australia</i> , October 2003
<i>The proposed sale of Medibank Private: historical, legal and policy perspectives</i> , Research Brief No. 2, September 2006	Productivity Commission Research Report, <i>International Pharmaceutical Price Differences</i> , July 2001 and Industry Commission inquiry on private health insurance (1997)
<i>Higher Education Legislation Amendment (2006 Budget and Other Measures) Bill 2006, Bills Digest No. 28, October 2006</i>	Research Report, <i>Australia's Health Workforce</i> , December 2006
<i>Broadcasting Services Amendment (Media Ownership) Bill 2006, Bills Digest No. 32, October 2006</i>	Inquiry Report, <i>Broadcasting</i> , March 2000
<i>Communications Legislation Amendment (Enforcement Powers) Bill 2006, Bills Digest No. 37, October 2006</i>	Inquiry Report, <i>Broadcasting</i> , March 2000
<i>Home loan affordability — measurement and trends</i> , Research Note No. 8, November 2006	Inquiry Report, <i>First Home Ownership</i> , March 2004
<i>Government assistance to alternative transport fuels</i> , Research Note No. 9, November 2006	Annual Report Series, <i>Trade & Assistance Review 2004-05</i> , April 2006
<i>Customs Legislation Amendment (New Zealand Rules of Origin) Bill 2006, Bills Digest No. 54, November 2006</i>	Research Report, <i>Rules of Origin under the Australia New-Zealand Closer Economic Relations Trade Agreement</i> , May 2004
<i>Customs Tariff Amendment (Incorporation of Proposals) Bill 2006, Bills Digest No. 64, December 2006</i>	Inquiry Report, <i>Review of Australia's General Tariff Arrangements</i> , July 2000
<i>Airports Amendment Bill 2006, Bills Digest No. 74, February 2007</i>	Inquiry Report, <i>Price Regulation of Airport Services</i> , January 2002
<i>Private Health Insurance (Prostheses Application and Listing Fees) Bill 2006, Bills Digest No. 85, February 2007</i>	Inquiry Report, <i>Cost Recovery by Government Agencies</i> , August 2001
<i>Wheat Marketing Amendment Bill 2006, Bills Digest No. 111, March 2007</i>	Industries Assistance Commission Inquiry Report, <i>The Wheat Industry</i> , February 1988
<i>Higher Education Legislation Amendment (2007 Measures No. 1) Bill 2007, Bills Digest No. 118, March 2007</i>	Draft Research Report, <i>Public Support for Science and Innovation</i> , November 2006

Aged Care Amendment (Security and Protection) Bill 2007, Bills Digest No. 120, March 2007

Safety Rehabilitation and Compensation and Other Legislation Amendment Bill 2006, Bills Digest No. 122, March 2007

Australian Energy Market Amendment (Gas Legislation) Bill 2006, Bills Digest No. 124, March 2007

Aged Care Amendment (Residential Care) Bill 2007, Bills Digest No. 128, March 2007

Aged Care Amendment (Residential Care) Bill 2006, Bills Digest No. 129, April 2007

Budget Review 2007–08, Research Brief No. 12, May 2007

National Health Amendment (Pharmaceutical Benefits Scheme) Bill 2007, Bills Digest No. 169, May 2007

Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Bill 2007, Bills Digest No. 170, June 2007

Family Assistance Legislation Amendment (Child Care Management System and Other Measures) Bill 2007, Bills Digest No. 177, June 2007

Farm Household Support Amendment Bill 2007, Bills Digest No. 190, June 2007

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2007*

Inquiry Report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, March 2004

Inquiry Report, *Review of the Gas Access Regime*, June 2004

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2007*

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2006*

Research Reports, *Potential Benefits of the National Reform Agenda*, December 2006 and *Public Support for Science and Innovation*, March 2007; Staff Working Paper, *Can Australia Match US Productivity Performance?*, March 2007

Research Report, *Economic Implications of an Ageing Australia*, March 2005

Research Report, *Australian and New Zealand Competition and Consumer Protection Regimes*, December 2004

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2007*

Research Paper, *Trends in Australian Agriculture*, June 2005

Other broad-based performance indicators

In addition to the performance indicators for 2006-07 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In issuing the Government's Statement of Expectations for the Productivity Commission on 3 May 2007, the Parliamentary Secretary to the Treasurer stated:

At the outset, I would like to make it clear that the Government is very pleased with the overall performance of the Commission. The advice provided by the Commission is balanced, objective and thorough. (Pearce 2007b)
- On 13 April 2007 COAG announced agreement to the Productivity Commission proceeding to the second stage of a study to benchmark the compliance costs of business regulation (see pp. 169–70).
- In various 2007 election policy statements, the Government proposed that the Commission would be asked to:
 - establish, publish and annually update benchmarks for the cost of providing essential services infrastructure for major new residential development releases, including roads, sewerage and water
 - undertake an inquiry on the regulation of Australia's wild catch fisheries
 - review the current dividend policy of every capital city water utility, recommend an appropriate dividend policy for each of them and report annually on implementation, as well as to report annually on State and Territory Governments' progress in delivering transparency in the pricing of urban water to customers (Coalition Government 2007a, b, c).
- In the lead-up to the 2007 federal election, the federal Opposition proposed a number of tasks for the Commission including that it:
 - would be responsible under statute for estimating the costs and benefits of harmonisation across jurisdictions of key regulations imposed on business such as OHS regulation, payroll tax administration, building codes and trades and professional body recognition (Rudd 2007c)
 - examine the effectiveness of different models to improve the support for working parents with new born children, their likely impact on work and family preferences and workforce participation more generally (Rudd 2007d)
 - measure the contribution of community sector organisations to the Australian economy (Gillard 2007)

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- assess the distribution of the net benefits of COAG regulation reforms between the Commonwealth and the States as a basis for payments from a pool of regulatory reform incentive payments (Emerson 2007)
 - review the operation of the telecommunications Universal Service Obligation and provide options on the future funding and structure of the regime (Conroy 2006).
 - In outlining the basis for the Labor Party’s approach to boosting Australia’s productivity performance, the Leader of the Opposition stated:

Read every OECD report and every Productivity Commission report that’s been produced. (Rudd 2007a)
 - The Deputy Chair of the Parliamentary Joint Committee on the Australian Crime Commission stated that he saw ‘some merit’ in having the Productivity Commission examine law enforcement across Australia ‘to try to get some rigour into assessment of efficiency and effectiveness in the law enforcement environment’ (Kerr 2007).
 - In a minority report to the Senate Standing Committee on Finance and Public Administration report on the Medibank Private Sale Bill 2006, Senator Murray stated:

... it is crucial that as part of the sale process, the Productivity Commission be required to inquire into competition in the private health insurance market. The last time such a project was carried out was almost ten years ago with the Productivity Commission’s 1997 report ‘Private Health Insurance’ and, given the circumstances, it is an opportune time for that report to be updated and reviewed. (SSCFPA 2006, p. 31)
- In subsequent parliamentary debate on the Medibank Private Sale Bill 2006, the Australian Democrats (unsuccessfully) moved an amendment that, before the sale, the Commission be required to report on how the development of an efficient, competitive and viable private health insurance industry could be enabled (Allison 2006b).
- In February 2007 a number of National Party parliamentarians advocated a Productivity Commission inquiry on taxation arrangements for non-forestry agribusiness managed investment schemes.
 - In its report on balancing paid work and family responsibilities, the Human Rights and Equal Opportunity Commission (2007) recommended that the Productivity Commission be asked to:
 - undertake an inquiry into the feasibility of establishing a superannuation-like framework whereby the unpaid work of carers could be recognised by the Australian Government

-
- investigate the Australian early childhood education and care workforce with the aim of addressing shortages in the workforce, recommending ways in which the training and qualification requirements for employees working in children’s services might be improved across the board, addressing perceived inequities in employee wages and working conditions and improving the status of children’s services professionals.
 - The Energy Reform Implementation Group canvassed the option of using the Productivity Commission to undertake independent reviews of the energy industry as a way of developing policy ‘more reliably’ than the Ministerial Council on Energy approach of commissioning ad hoc analysis (ERIG 2007).
 - In April 2007 the Australian Consumers’ Association requested that the Treasurer have the Commission conduct an inquiry on the regulation of the pricing of prescription medicines in Australia.
 - The Business Council of Australia and the Corporate Tax Association (2007) asked the Treasurer to have the Commission conduct a comprehensive review of the effectiveness of Australia’s business tax system across federal and state jurisdictions and to recommend reforms in the following terms:

As an organisation with a deserved reputation as an impartial assessor of policy with a strong focus on improving the international competitiveness of Australian industry, the Productivity Commission is the appropriate body to undertake such a review. Having examined a range of state and federal taxation issues in the past, the Productivity Commission has the expertise to perform such a detailed and complex task.
 - A report prepared in May 2007 for the Business Council of Australia on how Australia should set credible targets for greenhouse gas reduction argued that the task of ‘rigorous analysis and sound advice’ on the economic, social and environmental impacts of the proposed path to emissions reduction could be assigned to the Productivity Commission, supplemented by other relevant bodies such as the CSIRO (Sims 2007a).
 - Against what it viewed as the failure of governments to conduct useful audits of infrastructure as required by COAG, the Business Council of Australia reiterated the call for the Productivity Commission to undertake independent policy and condition ‘audits’ of Australia’s infrastructure every two years (Sims 2007b).
 - A policy discussion paper released by the Group of Eight (2007) proposed that the indicative cost of Australian university courses be determined on advice from the Productivity Commission on the actual and relative teaching costs by broad field of education.
 - The Australian Petroleum Production and Exploration Association (2007) recommended that the Commission, as a priority, be asked to review the regulatory framework for petroleum activities, onshore and offshore and across

Australian jurisdictions, with a focus on opportunities to streamline and remove areas of regulatory duplication and improve the timeliness of approval processes.

- The National Rural Health Alliance (2007), a peak body representing non-metropolitan health consumers and service providers, called for a Productivity Commission inquiry on the future sustainability of rural and remote communities.
- The Master Builders Australia (2007), a peak building and construction industry association, called for an ‘urgent examination by an independent body, such as the Productivity Commission, into optimal funding arrangements between the federal, state and local governments to ensure the timely provision of residential land’.
- The NSW Business Chamber (2007) recommended that the Productivity Commission undertake a review of the GST distribution formula — to identify economic distortions and recommend simplification of horizontal fiscal equalisation arrangements — given the Commission’s ‘reputation for independence and rigour’.
- The Australian National Retailers Association (2007), representing large retailers in Australia, called on the Australian Government to commit to a Productivity Commission review of the effects of recent changes to section 46 of the Trade Practices Act that were effected through the *Trade Practices Legislation Amendment Act (No. 1) 2007*.
- The Australian Spatial Information Business Association (2007) recommended a Productivity Commission review of the pricing policies for spatial information in each Australian jurisdiction.
- Visa International (2006) called for ‘a thorough independent’ review of the effectiveness and outcomes of regulation of the card payments system to be conducted by an organisation such as the Productivity Commission.
- A number of policy analysts and newspaper editorialists during the year variously advocated that the Commission be asked to assess the affects of quarantine protection on consumer prices and industry efficiency, to monitor progress in reforming Indigenous-specific programs and government funding mechanisms, and to conduct an inquiry on payments and commissions in the financial services industry.

General endorsement of the its role and work can also be found in international assessments of the Commission and various proposals for new agencies to be modelled on it. For example:

- The most recent WTO Trade Policy Review of Australia made the following observation:

The high degree of transparency in the formulation and evaluation of Australia's economic policies in relation to their rationale, nature, and economic effects, enhances government accountability and public debate over the merits of these policies. (WTO 2007, p. vii)

The Review went on to state:

The role of transparency, especially the use of independent institutions, such as the PC to evaluate government policy, has greatly facilitated the economic reforms and ensured their continuation. (WTO 2007, p. 16)

In addition, the WTO Review cited 22 separate Commission outputs in the course of its own reporting.

- In January 2007 the independent Study Report for APEC on Australia's Individual Action Plan 2006 commented that the Productivity Commission is 'a highly reputable and independent analytical and advisory body on micro-economic matters' and went on to observe that, in the light of Australia's experience:

... it may be time for APEC economies to consider funding the work of a region-wide 'productivity commission', an advisory body that would build up technical and analytical capacity within the region in the numerous economic areas that continuously require the attention of APEC ministers. (Kohsaka and Schwanen 2007)

- The announcement by the leaders of the APEC forum following their meeting in Sydney in September 2007 that they would strengthen APEC with the establishment of a new APEC Policy Support Unit was widely reported as agreement to create a body with commission-like analytical capabilities.
- In submissions to the New Zealand Parliament's Finance and Expenditure Committee inquiry on the monetary policy framework, the New Zealand Exchange and ANZ National Bank have argued for a 'productivity commission' in New Zealand. The ANZ National Bank (2007) recommended:

The establishment of an independent productivity commission, which aims to better understand how policy decisions could impact on productivity performance on the supply-side of the economy. While policy-makers are typically individually and departmentally focused on specific regulatory issues, it is the collective impact across an array of regulations that needs to be better understood.

- In federal parliamentary debate on the Wheat Marketing Amendment Bill 2006, the Opposition moved amendments that would have required a review of export wheat control arrangements by an independent body 'with the same powers, procedures and protections of an inquiry conducted by the Productivity Commission in accordance with the *Productivity Commission Act 1998*' (Crean 2006).

In addition to the media coverage reported below in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of more than 140 mentions of the Commission and its reports in 2006-07. Just over 20 per cent of total mentions related to inquiries and commissioned studies current in 2006-07, and the majority of these were to the study on public support for science and innovation. The Commission's work was cited in around 60 different journals and publications, most frequently in the *Medical Journal of Australia*, *Campus Review*, the *Australian Economic Review* and the *Australian Journal of Political Science*. Mentions in medical or health related journals accounted for 20 per cent of total mentions and mostly cited the Commission's 2006 study on Australia's health workforce.

Output 1: Government-commissioned projects

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

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

The resources used in producing this output in 2006-07 were:

- 75.7 staff years; and
- \$14.5 million on an accrual basis.

All government-commissioned inquiries in 2006-07 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 2006-07

The Commission had six public inquiries and six government-commissioned research studies underway at some time during the year, and has since commenced a study of chemicals and plastics regulation and a safeguards inquiry on pigmeat imports, and moved to stage 2 of the business regulation benchmarking study. The program of government-commissioned projects is summarised in table B.3,

although the varying complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2006-07 the Commission:

- completed four public inquiries begun in 2005-06 — waste management, road and rail freight infrastructure pricing, Tasmanian freight subsidy arrangements and the price regulation of airport services
- commenced two new public inquiries, which are due for completion in 2007-08, on Australia’s consumer policy framework and the market for retail tenancy leases in Australia.

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

	2005-06					2006-07												2007-08								
	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:																										
Conservation of Australia’s historic heritage places																										
Waste management																										
Road and rail freight infrastructure pricing																										
Tasmanian freight subsidy arrangements																										
Price regulation of airport services																										
Consumer policy framework																										
Market for retail tenancy leases in Australia																										
Safeguards inquiry into the import of pigmeat																										
Commissioned research studies:																										
Australian consumer product safety system																										
Economic impacts of migration and population growth																										
Rural water use and the environment																										
Standard setting and laboratory accreditation																										
Public support for science and innovation																										
Benchmarking of Australian business regulation																										
Annual review of regulatory burdens on business																										
Local government revenue raising capacity																										
Chemicals and plastics regulation																										
Business regulation benchmarking – Stage 2																										

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

Research studies commissioned by the Government remained a significant component of the Commission's workload (figure 2.1). During 2006-07 the Commission:

- finalised three government-commissioned research studies begun the previous year — rural water use and the environment; standard setting and laboratory accreditation; and public support for science and innovation
- commenced and completed in the year a study on the feasibility and appropriate scope of performance benchmarking of Australian business regulation
- commenced two other new studies — the first of a series of annual reviews of regulatory burdens on business, which covered the primary sector; and on local government revenue raising capacity.

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

Table B.4 Public inquiry and other commissioned project activity, 2002-03 to 2006-07

<i>Indicators</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
Public inquiries					
Inquiry references received	5	3	4	4	2
Issues papers released	4	3	3	4	2
Public hearings (sitting days) ^a	31	66	26	26	28
Organisations/people visited	191	186	167	151	134
Submissions received	540	1 221	623 ^c	654	422
Draft reports ^b	1	5	5	2	3
Inquiry reports completed	3	6	4	2	4
Inquiries on hand (at 30 June)	5	2	2	4	2
Research studies					
References received	6	4	3	4	3
Submissions received	262	149	253	608	485 ^d
Draft reports ^b	4	1	4	4	3
Research reports completed	7	2	3	4	4
Studies on hand (at 30 June)	1	3	3	3	2
Total references					
Total references received	11	7	7	8	5
Total references completed	10	8	7	6	8
Total references on hand (at 30 June)	6	5	5	7	4

^a Excludes forums and roundtable discussions. ^b Includes all types of draft reports. ^c Includes 130 submissions accepted on a commercial-in-confidence basis in the smash repair and insurance inquiry. ^d Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the eight inquiries and government-commissioned research studies completed in 2006-07 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 2002-03 to 2006-07 are shown in table B.6.

Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for on-site consultations with

Table B.5 Cost of public inquiries and other commissioned projects completed in 2006-07^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Waste management	1 925
Road and rail freight infrastructure pricing	917
Tasmanian freight subsidy arrangements	764
Price regulation of airport services	805
Rural water use and the environment	723
Standard setting and laboratory accreditation	1 016
Performance benchmarking of Australian business regulation	720
Public support for science and innovation	2 179

^a Includes estimated overheads.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 2002-03 to 2006-07

<i>Expenditure item</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	381	416	343	382	478
Printing	92	181	125	151	132
Consultants	349	62	32	103	40
Other ^b	245	289	194	311	291
Total	1 068	949	693	946	942

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

participants and the State and Territories, the costs of any consultancies (including those arising from the statutory requirements relating to the use of economic models), printing costs and the duration of the inquiry or project.

Consultative processes

The practice of consulting widely with government departments and agencies, professional and industry organisations, academics and the broader community during inquiries and government-commissioned research projects continued in 2006-07.

In the course of its inquiry work in 2006-07, the Commission held 28 public hearings, visited more than 130 individuals and organisations and received more than 420 submissions. The Commission attempts to encourage broad public participation in its inquiry work, including from those in regional areas. For example:

- Following receipt of its reference on road and rail freight infrastructure pricing, the Commission notified around 1500 individuals and organisations considered likely to have an interest, including more than 600 regional local government bodies and more than 400 regional media outlets. Early in the life of this inquiry, the Commission signalled emerging inquiry issues and early directions (in a presentation by the Chairman that was placed on the Commission's website) and convened a roundtable in Emerald, Queensland, to discuss potential regional and remote impacts of infrastructure pricing reforms. And before finalising its report, the Commission held a workshop with senior rail industry executives to consider issues raised by the Commission's Discussion Draft and, more generally, the future of rail.
- After the release of its issues paper for the inquiry on Tasmanian freight subsidy arrangements, the Commission met with individual producers, shipping companies, government agencies and other interested parties in Tasmania and participated in roundtable meetings in Hobart and Launceston and on King Island. Draft report hearings were held in Hobart, Launceston and Melbourne.
- Teleconferencing is also used to facilitate participation in hearings. For example, in the course of its waste management inquiry, public hearings were held via telephone conferences with participants from regional Victoria, Western Australia, the Northern Territory and Tasmania.

Trends in inquiry activities — which are heavily influenced by the nature of the policy issues referred to the Commission — are shown in table B.4.

The Commission adapts its consultative processes to suit the variety of research studies commissioned by the Government. During 2006-07, for example, the Commission consulted with a wide range of businesses, people, institutions and governments about the functioning of the science and innovation system and two roundtables were convened to receive feedback on the Commission's draft report. For its study on the performance benchmarking of Australian business regulation, the Commission: sought advice from businesses to ensure that the proposed benchmarking and reporting options would be relevant to them; consulted all governments so as to understand their expectations for the study and views about benchmarking; issued a Discussion Draft in November 2006; and convened two roundtable discussions with government, business and academic representatives to provide feedback on the Commission's draft proposals. Details on the consultations undertaken in the course of government-commissioned research studies are provided in the reports.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. On-line registration facilitates people notifying their interest in specific inquiries and studies and being kept informed of developments. In particular, participants' submissions to inquiries and studies and transcripts of hearings (other than confidential information) are placed on the Commission's website. Internet access has also increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 39 000 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2007.

Quality indicators

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

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

- A roundtable held after release of the Commission's road and rail Discussion Draft focused on developing practical steps towards the introduction of more

commercially-oriented pricing and more efficient provision of road infrastructure. About 40 representatives from the Commonwealth, State, Territory and local governments, peak industry organisations as well as several expert consultants attended.

- In parallel with the road and rail inquiry, the Commission assisted COAG Senior Officials investigate potential economic and revenue impacts of the new National Reform Agenda. For consistency, general equilibrium analysis for the road and rail inquiry used the same model, Monash MMRF. Modelling results for the road and rail inquiry were considered, along with other NRA results, at a workshop for COAG officials held in September 2006.

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

Of the eight inquiries and commissioned research studies finalised in 2006-07, seven were completed on or ahead of schedule. As noted in the Commission's annual report for 2005-06, the original reporting period for the study on rural water use and the environment was extended by two months to 11 August 2006 and this reporting date was met. The inquiry reports on airport pricing and Tasmanian freight subsidy arrangements were finalised ahead of schedule. The study on performance benchmarking of Australian business regulation — which required the development of a range of feasible quantitative and qualitative performance indicators and reporting framework options to inform subsequent benchmarking of regulatory burdens on business — was completed very shortly after the six month reporting period.

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 responses to, and decisions on, its reports. As detailed in appendix C:

- The Government supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services, including the recommendation

to amend Part IIIA of the Trade Practices Act to restore the interpretation prevailing before the Federal Court decision upholding the declaration of the domestic airside services at Sydney Airport.

- In April 2007 COAG broadly endorsed the reform blueprint proposed by the Commission in its report on road and rail freight infrastructure pricing. Further, COAG accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode.
- Consistent with the Commission's report on the feasibility of, and reporting framework options for, performance benchmarking of Australian business regulation, COAG agreed to proceed to the second stage of the study to benchmark the compliance costs of regulation.
- In its response to the Commission's report on the conservation of Australia's historic heritage places, the Australian Government stated that it agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing. However, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. A mix of other recommendations was accepted.
- The Australian Government endorsed the Commission's overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making. However, it rejected the broad policy framework recommendations in the Commission's report on waste management. The Commonwealth also noted that the States have prime responsibility for domestic waste management policy. Although it would raise some of the Commission's recommendations in the Environment Protection and Heritage Council, policy action in areas such as landfill regulation would be left to individual jurisdictions.
- In its draft report on Tasmanian freight subsidy schemes, the Commission advised that it could find no sound economic rationale for providing freight assistance to particular Tasmanian shippers. Further, modelling commissioned by the Tasmanian Government demonstrated that the schemes benefit Tasmania, but at a small net cost to the Australian community. The Commission's draft proposal was that the Tasmanian Freight Equalisation Scheme be phased out and the Tasmanian Wheat Freight Scheme abolished. In September 2006 the Prime Minister announced that both schemes would continue. The Commission accordingly focused its final report on reforms which would improve the efficiency and effectiveness of the schemes. The Government accepted the findings and substantive recommendations in the Commission's final report.

Governments do not always accept the Commission's advice or may reject it initially. Nevertheless, responses to and decisions on commissioned reports confirm the continuing usefulness of the Commission's work to the Government, Parliament and the broader community. An assessment 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 updated since last year's annual report). Further, the nature and extent of references to Commission inquiry reports suggest that those reports have materially contributed to policy debate in Federal, State and Territory parliaments, as well as more generally within the media and the wider community.

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

- The Treasurer drew on the Commission's findings on problem gambling in its 1999 report, *Australia's Gambling Industries*, in both Parliament and wider community debate on State government dependence on gambling revenues, the regulation of poker machine numbers and measures to respond to problem gambling (Costello 2007c, d).
- Although initially deferring consideration of a range of Commission recommendations on design elements for workers' compensation schemes, the Government's Second Reading Speech and Explanatory Memorandum on the Safety, Rehabilitation and Compensation and Other Legislation Amendment Bill 2006 drew on the Commission's recommendations for a minimum benchmark to define work-related fatalities, injury and disease and the coverage of journeys to and from work and recess breaks.

Furthermore, following the Commission's 2004 report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, the Minister has steadily expanded self insurance arrangements under the Commonwealth's Safety, Rehabilitation and Compensation Act to 18 firms. These self insurance arrangements had been unsuccessfully challenged by the Victorian Government in the Federal Court of Australia (*Victorian WorkCover Authority v Andrews* [2005] FCA 94 (17 February 2005)). The Court's reasons for judgment cited the Commission's assessment of the impact on State schemes of firms transferring to Commonwealth coverage as well as the role of private sector insurers in some jurisdictions.

- In noting his opposition to the position on consumer product safety regulation adopted by the majority on the Ministerial Council on Consumer Affairs, the Parliamentary Secretary to the Treasurer stated:

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

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

- | | | |
|----|---|--|
| 10 | Australia's Gambling Industries (November 1999) | The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. The report remains a major reference point in community discussion of gambling issues in Australia. |
| 11 | Broadcasting (March 2000) | The Government did not formally responded to the report. Nevertheless, the report is still referred to in parliamentary and wider community debate on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and policy analysts and the media continue to cite it regularly. The Government made some references to the report when introducing its Broadcasting Services Amendment (Media Ownership) Bill 2006. |
| 12 | Review of Australia's General Tariff Arrangements (July 2000) | In December 2000 the Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system. In its 2005-06 Budget, the Government announced removal of the 3 per cent tariff applying to business inputs imported under a tariff concession order, effective from 11 May 2005. |
| 13 | Review of Legislation Regulating the Architectural Profession (August 2000) | Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession. |
| 14 | Review of the Prices Surveillance Act (August 2001) | While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission. |
| 15 | Cost Recovery by Government Agencies (August 2001) | The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response. |
| 16 | Telecommunications Competition Regulation (September 2001) | The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes. |

(continued next page)

Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
17 Review of the National Access Regime (September 2001)	The Government endorsed the majority of the Commission's recommendations on the national access regime, in particular the provision of clearer directions to regulators and greater certainty for investors.
18 Review of Certain Superannuation Legislation (December 2001)	The Government agreed that legislative changes were needed to reduce compliance costs, would implement a number of Commission recommendations and further examine others, but did not accept proposed reforms to institutional arrangements for handling complaints. In a subsequent response to a report by the Superannuation Working Group, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement.
19 Price Regulation of Airport Services (January 2002)	The Government supported all of the major elements of the Commission's preferred approach for a light-handed regulatory regime, involving a 'probationary' period of price monitoring.
20 Citrus Growing and Processing (April 2002)	The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. It subsequently endorsed all of the Commission's recommendations covering trade negotiations, market access arrangements, export control arrangements and review, and industry compliance costs.
21 Independent Review of the Job Network (June 2002)	The Government stated the report was a significant and authoritative examination of the Job Network and agreed with a number of Commission recommendations. It had already changed the design of some Job Network features on the basis of the Commission's draft report. However, the Government did not support some key Commission recommendations at present, but would give consideration to them as employment services policy evolves.
22 Radiocommunications (July 2002)	The Government accepted most of the Commission's recommendations but would further consider whether spectrum licences should be issued in perpetuity and some other matters. Six recommendations were rejected, the most significant of which dealt with changes to competition rules and ministerial discretion on limits to spectrum acquisition in auctions.
23 Review of Section 2D of the Trade Practices Act 1974: Local Government Exemptions (August 2002)	The Government accepted the Commission's recommendation that section 2D be repealed and replaced with a section stating explicitly that Part IV of the Trade Practices Act only applies to the business activities of local government.

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

(continued next page)

Table B.7 (continued)

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

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|----|---|--|
| 39 | <i>Tasmanian Freight Subsidy Arrangements (December 2006)</i> | <i>In response to the Commission's draft report proposals that the subsidy schemes be phased out or abolished, the Government announced that both the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme would continue. The Commission's final report focused on reforms which would improve the efficiency and effectiveness of the schemes and the Government agreed with the Commission's substantive recommendations.</i> |
| 40 | <i>Review of Price Regulation of Airport Services (December 2006)</i> | <i>The Government announced that it supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services.</i> |
| 41 | <i>Road and Rail Freight Infrastructure Pricing (December 2006)</i> | <i>COAG announced in April 2007 that it broadly endorsed the reform blueprint proposed by the Commission. Further, it accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode.</i> |
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^a Additions or significant changes to the table published in the 2005-06 Annual Report are indicated in italics.

While the Productivity Commission did endorse regulatory harmonisation, it favoured the ‘single law, single regulator’ model. I want to say ... that I also favour this approach. When it comes to product safety, I strongly agree with the Commission when it says that this approach will provide the best outcomes for both consumers and business. (Pearce 2007a)

In addition, the Australian Labor Party National Platform (2007, p. 204) commits to the implementation of the Productivity Commission’s recommendations on consumer product safety. The federal Shadow Minister for Consumer Affairs has also endorsed the Commission’s model of national uniformity and its recommendations to establish a national clearinghouse for gathering information and analysis and to provide improved hazard identification (Ferguson 2007).

- During the year, three ministers cited Commission findings on the economic implications of an ageing Australia in their speeches to domestic and international audiences (Nelson 2006, Santoro 2006 and Stone 2006).

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 43 separate occasions by Members and Senators in the Federal Parliament in 2006-07, nearly 60 per cent of which were to the Commission’s science and innovation study. In addition, reports from previous years were referred to on 89 occasions (principally the Commission’s 2000 inquiry report on broadcasting, the 2004 inquiry report on national frameworks for workers’ compensation and OHS, and the 2004 inquiry report on first home ownership).
- State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 72 occasions in 2006-07. The reports on first home ownership and Australia’s health workforce each accounted for 20 per cent of the mentions and the Commission’s 1999 report on gambling for a further 14 per cent of mentions.
- Other examples of the use of Commission inquiry and commissioned research studies include:
 - continuing and widely based use of the Commission’s 2005 report, *Economic Implications of an Ageing Australia*, including in the Government’s *Intergenerational Report 2007* (Australian Government 2007a) and by the IMF (2006), the NSW Treasury (2007), IPART (2006), the Australian Labor Party’s 2007 National Platform, the Business Council of Australia (BCA 2007b), the Australian Industry Group (2007), the Australian Council of Trade Unions (2007), in policy development and announcements (Gillard 2006, Wong 2006,

Rudd and Smith 2007), studies of the community care sector (Allen Consulting 2007b) and by academics (Birrell and Rapson, 2006)

- use of findings in the Commission’s report, *Economic Impacts of Migration and Population Growth*, in the Commonwealth’s 2007-08 Budget Papers, at the Reserve Bank (Hsieh and Kohler 2007) and in policy development (Wong 2006)
- continuing use of the Commission’s 2005 *Review of National Competition Policy Reforms* by the Business Council of Australia (Sims 2007b), in the *Australian Government National Competition Policy Report 2005–07*, the April 2007 report to COAG on *Australia’s Infrastructure: National Overview Report*, the Energy Reform Implementation Group (2007) and briefings for parliamentarians (eg, Griffith 2006)
- the Commission’s 2001 inquiry report on cost recovery principles for government agencies (Auditor-General for Western Australia 2006; Auditor-General of Queensland 2006b); the 2001 study on international pharmaceutical price differences (Allison 2006a); the 2004 inquiry report on native vegetation regulation (NSW Liberal/Nationals 2007a); the 2004 inquiry report on the Disability Discrimination Act (Roth 2007); the 2004 study of building regulation reform (Prime Ministerial Task Group on Emissions Trading 2007); the 2005 inquiry report on energy efficiency (ERIG 2007 and ABARE 2007); and the Commission’s 2003 evaluation of the Pharmaceutical Industry Investment Program and its 2005 study on the impacts of advances in medical technology (Medicines Australia 2007)
- use of Commission reports by private sector consultants in their work for government and industry clients — for example the Commission’s 2006 study on rural water markets (Frontier Economics 2007; ACIL Tasman 2007a) and its 2001 review of the Prices Surveillance Act (ACIL Tasman 2007b).

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 31 invitations the Commission accepted in 2006-07 to present papers on inquiries and commissioned studies to business, community and other groups, and in particular, on the Commission’s road and rail inquiry, and the studies on science and innovation, Australia’s health workforce and rural water use (table E.1).

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

- In the 12 months to June 2007 there were more than 157 500 external requests for the index pages of inquiries and government-commissioned research studies current in 2006-07. The projects of most interest were the study on public support for science and innovation (34 400 requests) and the inquiries on airport

services pricing (21 500 requests), road and rail freight infrastructure pricing (19 500 requests) and waste management (18 500 requests). Even after an inquiry or project is completed, community interest can remain high. For example, during the year, web pages for the Commission's study of the economic implications of an ageing Australia were requested more than 44 300 times and those for the Commission's 1999 inquiry on Australia's gambling industries were requested about 19 200 times.

- Inquiry and commissioned research reports typically receive wide media coverage — in 2006-07 there were 13 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on first home ownership, heritage, national competition policy reforms, road and rail freight infrastructure pricing and the Job Network, and the studies on science and innovation and on rural water use.
- The Commission's reports on science and innovation, price regulation of airport services, road and rail freight infrastructure pricing, Tasmanian freight subsidy arrangements and Australia's health workforce were amongst the most widely reported during 2006-07, receiving a total of more than 620 mentions in print and electronic media.

Output 2: 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 Government Service Provision in respect of reporting on the equity of access, and the efficiency and effectiveness of government services; and reporting on key indicators of Indigenous disadvantage
- continues performance monitoring and related research on government trading enterprises (GTEs), work the Commission previously undertook for the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises
- undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

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

The Commission is committed to producing reports of a high standard which are useful to government and the wider community, and completed on time.

The resources used in producing this output in 2006-07 were:

- 25.2 staff years; and
- \$4.2 million on an accrual basis.

Activities in 2006-07

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

- *Financial Performance of Government Trading Enterprises, 2000-01 to 2004-05* (July 2006)
- *Report on Government Services 2007*, 2 volumes (and on CD with supporting tables, January 2007)
- *Framework for Reporting on Indigenous Disadvantage: Report on Consultations 2006* (March 2007)
- *Report on Government Services 2007: Indigenous Compendium* (April 2007)
- *Overcoming Indigenous Disadvantage: Key Indicators 2007 Report* (June 2007)
- *Overcoming Indigenous Disadvantage: Key Indicators 2007 Overview* (June 2007)

Review of Government Service Provision

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

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

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

Report on Government Services

The twelfth Report on Government Services was released in January 2007. Reporting is an iterative process and, since the Review published its first Report in 1995, there has been a general improvement in both the scope of reporting and the quality and comprehensiveness of data presented. The Report emphasises reporting of outcomes, consistent with the demand by governments for outcome-oriented performance information, and includes a focus on the equity of government service provision.

Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Report content improved between the 2006 and 2007 Reports, with 52 per cent of indicators fully comparable in 2007 (compared to 47 per cent in 2006). The proportion of indicators reported on, but not fully comparable, declined from 32 to 28 per cent. The proportion of indicators with no reporting against them remained around 20 per cent (figure B.2).

Particular improvements in the 2007 Report included:

- a new indicator for public hospitals on ‘workforce sustainability’ and the reporting of data for the first time on the availability of dentists
- additional learning outcomes data for school education
- reporting ‘aged care recipients from special needs groups’ as an indicator of equity of access in aged care services
- improved data on disability prevalence rates among Indigenous people and improved reporting on access indicators for community support and respite services in the ‘Services for people with a disability’ chapter
- improvements to the comparability of data for ‘accredited child care services’ and ‘non-standard hours of care’ indicators for children’s services
- new, experimental data in relation to the ‘pathways’ project in the ‘Protection and support’ chapter.

Figure B.2 **Comparability of indicators** (per cent)

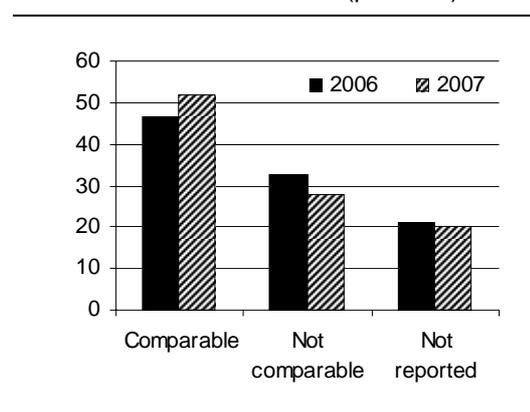


Table B.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2006 Report.

The Review continues efforts to improve reporting on service provision to Indigenous Australians in the Report on Government Services. Improvements were made to Indigenous data for the public hospital, services for people with a disability and housing chapters in the 2007 Report. The Indigenous Compendium to the

Table B.8 Indicators reported on a comparable basis, 2007 Report

<i>Service area/indicator framework</i>	<i>Indicators with data reported</i>	<i>Indicators reported on a comparable basis</i>	<i>Proportion comparable</i>	<i>Change since last year in number reported on a comparable basis</i>
	no.	no.	%	no.
<i>Education</i>				
School education	13	10	77	1
VET	15	12	80	2
<i>Justice</i>				
Police services	15	14	93	1
Court administration	6	3	50	–
Corrective services	11	10	91	–
Emergency management	15	2	13	–
<i>Health</i>				
Public hospitals	25	9	36	1
Maternity services	10	3	30	–
Primary and community health	23	23	100	1
Breast cancer	11	7	64	–
Mental health	8	4	50	–
<i>Community services</i>				
Aged care services	13	12	92	0
Services for people with a disability	13	7	54	-1
Children's services	18	11	61	4
Child protection and out-of-home care	14	4	29	–
SAAP	16	12	75	6
<i>Housing</i>				
Public housing & State owned and managed Indigenous housing	11	11	100	-1
Community housing	10	–	–	–
Commonwealth Rent Assistance	10	9	90	–

SAAP = Supported Accommodation Assistance Program. – Nil or rounded to zero.

Report, released in April 2007, provides an easily accessible collation of all Indigenous data from the Report, and complements the information in the separate Overcoming Indigenous Disadvantage reports.

Overcoming Indigenous Disadvantage: Key Indicators

COAG commissioned the Review to produce this report on a regular basis, 'to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council's commitment to reconciliation through a jointly agreed set of indicators' (COAG Communiqué 5 April 2002).

The Overcoming Indigenous Disadvantage report is built on a strategic framework that has been endorsed by the Australian, State and Territory governments. Extensive consultations were held in 2006, seeking feedback on the 2005 Report and suggestions for improvements to the framework and indicators. To assist the consultation process, the Review produced a Consultation Paper and Questionnaire. At the end of the formal consultation period, a report on consultations was released.

The third edition of the Overcoming Indigenous Disadvantage report was published in June 2007. It found improvements in some key economic indicators, including employment, household income and home ownership. There were also improvements in several child health indicators.

Other outcomes did not improve in the period covered by the Report. Rates of substantiated notifications for child abuse or neglect increased for both Indigenous and non-Indigenous children. There was an increase in the number of long-term health conditions for which Indigenous people reported significantly higher rates than non-Indigenous people, and there was no change in the rate of housing overcrowding. The Report also found that Indigenous people's involvement with the criminal justice system continued to deteriorate.

The estimated cost to the Commission of assisting governments in the production of the Report on Government Services, the Overcoming Indigenous Disadvantage report and related Review activities in 2006-07 was \$3.5 million (compared to around \$3.2 million in 2005-06).

Performance monitoring of government trading enterprises (GTEs)

The Commission released its study on the financial performance of GTEs for the period 2000-01 to 2004-05 in July 2006.

The subsequent report on a range of financial indicators for 86 enterprises, covering the period 2004-05 to 2005-06, was substantially completed in 2006-07 and published in July 2007. The outputs of the research program on the capital management of GTEs were also included in this report.

International benchmarking

The Commission did not publish any benchmarking research on infrastructure in 2006-07.

Quality indicators

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

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

The Review has an ongoing program of consultation on the Overcoming Indigenous Disadvantage report. Following the release of the 2005 Report, a consultation team visited Indigenous communities and Indigenous organisations across the country, in a range of remote and regional centres, as well as in major cities. The team met with representatives of all governments and many expert bodies. The Review also engaged an expert Indigenous consultant to review drafts of the 2007 Report before publication.

The Commission's quality assurance processes for its reporting on the financial performance of GTEs includes giving State and Territory Treasuries the opportunity to review drafts before publication. The Commission also distributed draft chapters of its 2006 report on capital structures and equity withdrawals to State and Territory Treasuries for comment. The chapters on asset valuation and rate of return measures for the 2007 report were independently refereed.

Timeliness

The 2006 GTE financial performance monitoring report, the 2007 Report on Government Services and its Indigenous Compendium, and the 2007 Overcoming Indigenous Disadvantage report were completed on time.

Indicators of usefulness

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

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

A feedback survey has been conducted on the Report on Government Services every three years. A survey of users was undertaken in February 2007 and the results indicate that:

- the majority of respondents (79 per cent) were satisfied or very satisfied with the Report
- the majority of respondents thought that the quality and usefulness of the *indicators* were 'good' (49 per cent and 45 per cent, respectively), or 'adequate' (37 per cent and 38 per cent, respectively)
- the majority of readers rated the quality and usefulness of *data* as 'good' (33 per cent and 39 per cent, respectively) or 'adequate' (47 per cent and 42 per cent, respectively)
- around 60 per cent of respondents rated the quality and usefulness of the *text* as either 'good' or 'very good'. Around a third of respondents rated the text as 'adequate'
- the most common reasons for using the Report were: 'to brief management/ministers' (69 per cent); 'as a research tool' (68 per cent); 'to evaluate performance' (58 per cent); and 'to develop policy' (43 per cent). Those involved in the production of the Report were more likely to use the Report to brief management or ministers, while 'other readers' most commonly used the Report as a research tool.

Other indicators of the usefulness of the Report on Government Services include:

- In announcing the establishment in November 2006 of a Criminal Justice Ministerial Taskforce to address what the South Australian Government

considered to be unacceptable delays in committal and trial processes in the State's criminal courts, the South Australian Attorney-General stated:

Figures published by the Productivity Commission have shown that there is a need to improve criminal process in South Australia's courts. (Atkinson 2006)

- Confirmation from the Chair of the COAG Human Capital Working Group that the COAG Reform Council would draw on information from the Report when monitoring progress in implementing reforms under the National Reform Agenda. The Chair noted that any changes to the Report should continue to occur under the guidance and direction of the Review Steering Committee.
- A variety of performance information sourced to the 2007 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2006-07.
 - In the Federal Parliament, data from the reports were used in relation to waiting times for aged car beds, access to child care, police spending, early education and education in rural and regional locations.
 - In other parliaments, data from the reports were mentioned 59 times and were used in relation to police services, disability services, child protection orders, education, court clearance rates, health and corrective services.
- State Audit Offices drew on the Report in conducting their own performance and financial auditing. In 2006-07, for example:
 - the NSW Auditor-General used a range of comparative data and interpretative material on corrective services, court performance, accommodation support services, child protection, juvenile detention, public housing, ambulance services, public housing and policing (NSW Audit Office 2006a, b; 2007a, b, c, d)
 - the Victorian Auditor-General referred to pre-school data and monitoring of court administration performance (Victorian Auditor-General 2007a, b) and, in relation to the Auditor-General's recommendation that performance indicators for the State's vocational education and training be enhanced, the Department of Education and Training responded that it would continue to support and meet the Australian Vocational Education and Training Statistical Standards which have 'been recognised by the Productivity Commission as a reliable collection to support accountability requirements' (Victorian Auditor-General 2006)
 - the use of comparative data on home-based support services, public hospitals and the delivery of vocational education and training by Auditors-General in Western Australia, Tasmania and the ACT (Auditor-General for Western Australia 2007; Tasmanian Auditor-General 2006; ACT Auditor-General 2006).
- Various policy documents released by political parties drew on the Report's information on preschool participation (NSW Liberal/Nationals Coalition 2007b),

mental health expenditure (Berejiklian 2006), general practice services (Rudd and Roxon 2007b), acute public hospital and aged care services (Rudd and Roxon 2007c), and a range of data from the Indigenous Compendium to the Report on Government Services was cited in Rudd et al. (2007a).

- In addition to the use of the Report in federal parliamentary committee work (table B.1), there was extensive use of its housing data in the NSW Legislative Assembly Public Bodies Review Committee report of October 2006, *Report on the inquiry into the allocation of social housing*.
- A variety of data from the Report was used by the Australian Council of Social Services (2007), the Queensland Council of Social Service (2006), the Independent Pricing and Regulatory Tribunal of NSW (2006) and in a number of reports by consultants (for example, Ergas (2007) and Allen Consulting (2007a, c)), and the WA Law Reform Commission (2006) drew on material from the Indigenous Compendium to the 2006 Report.
- A number of journal articles and publications across a wide range of disciplines used the Report as a source. It was cited in articles in the *Medical Journal of Australia*, *Medical Observer Weekly*, *Australian Educator*, *Australian Journal of Education*, *Journal of Judicial Administration*, *Urban Policy and Research* and the *Australian Journal of Public Administration*.

Other indicators of usefulness from 2006-07 were:

- extensive media coverage of the 2007 Report on Government Services. There were more than 150 press articles drawing on the Report and more than 130 mentions of it in electronic media in the period to 30 June 2007. More than 1570 bound copies of the Report were distributed by the Commission
- more than 16 800 file requests for the Government Service Provision index page on the Commission's website in 2006-07. There were more than 12 400 requests for the 2007 Report on Government Services during 2006-07. The 2006 Report continued to be accessed from the website by external parties — with over 14 700 requests during 2006-07. There were more than 51 000 external requests for the index pages of Review publications (excluding the Overcoming Indigenous Disadvantage report) in 2006-07.

Overcoming Indigenous Disadvantage: Key Indicators

The principal task of the Overcoming Indigenous Disadvantage report is to identify indicators that are of relevance to all governments and Indigenous stakeholders and that can demonstrate the impact of program and policy interventions. Evidence of the Report's ongoing usefulness is demonstrated by the following:

-
- feedback from governments and Indigenous people and organisations since the release of the 2007 Report has been strongly supportive and there have been many requests for briefings from Ministers, senior government officials and departments and agencies at Commonwealth, State and Territory levels
 - more than 3600 bound copies of the 2007 Report and 4500 overviews have been distributed by the Commission.

More specific evidence of the usefulness of the Overcoming Indigenous Disadvantage reports during 2006-07 includes:

- the statement by the Australian Government, in its response to the report of the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Many Ways Forward*, that the Overcoming Indigenous Disadvantage Report:

demonstrates the continuing commitment of the Australian Government and State and Territory governments to continue to work together to improve data collection and to monitor outcomes in a systematic way that crosses jurisdictional and portfolio boundaries

- 14 mentions of the Report in the Federal and State parliaments, as well as in three federal parliamentary committee reports (see table B.1)
- extensive references to the 2003 and 2005 reports in the *Native Title Report 2006* and *Social Justice Report 2006*, both issued by the Aboriginal and Torres Strait Islander Social Justice Commissioner and tabled in Parliament in June 2007
- use of the Report by the NSW Government (2007) and community and business groups such as the Australian Council of Social Services (2007), the Business Council of Australia (2007b, f) and the Australian Industry Group (2007)
- citations in articles in such journals as the *Drug and Alcohol Review*, *Medical Journal of Australia*, *Social Policy Journal of New Zealand*, *Australian Philanthropy*, *Children Australia*, *Australian Journal of Political Science* and the *Crime and Justice Bulletin*
- more than 26 100 and 4 400 downloads of the full 2007 report and its overview, respectively, in June 2007. The 2005 Report and Overview continued to be accessed during 2006-07 with more than 14 500 requests
- extensive media coverage, with 25 printed newspaper articles and 55 electronic media articles in 2006-07.

Performance monitoring of government trading enterprises

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

- State and Territory governments agreed to ongoing involvement in performance monitoring for another three years, furnishing financial data as well as checking factual data and commentary.
- In commenting on the 2007 GTE report, the Treasurer stated:

The research paper provides an independent and comprehensive analysis of the financial performance of various GTEs, most of which are owned by State and Territory Governments and operate in the electricity, water, transport and forestry sectors ...

The Commission quite rightly emphasises the importance of GTEs operating efficiently, given their role as significant providers of infrastructure services that are fundamental to the wellbeing of Australians.

Timely and effective implementation of COAG's National Reform Agenda commitments, agreed between the Australian and State and Territory Governments in April of this year, will go a long way towards realising the gains from improving productivity, competitiveness and efficiency in crucial infrastructure sectors. (Costello 2007b)

- State Auditors-General cited the GTE report in their own work, including on the NSW electricity industry, Sydney Water, and Forests NSW (NSW Audit Office 2006, 2007a) and in Queensland (Auditor-General of Queensland 2006a).
- Other recent examples of the use of the Commission's GTE reports include the WTO's Trade Policy Review (WTO 2007), work underway in the OECD's Directorate for Financial and Enterprise Affairs, the Energy Reform Implementation Group (ERIG 2007), the Victorian Government's Infrastructure Report to COAG of April 2007, the Special Commission of Inquiry into Sydney Ferries Corporation (Walker 2007) and by consultants (Marsden Jacob 2006; Ergas 2007).
- The reports on the financial performance of GTEs attracted media attention through the year, including two editorials; articles in the *Australian Financial Review* by senior journalists on the results of the 2006 report and an article on GTE rates of return that drew on the research contained in the 2007 report; and a *Business Review Weekly* article based on performance monitoring results and deficiencies in governance arrangements identified earlier in associated research.
- There were more than 3100 external requests for the website page of the 2006 report on GTE performance.

Output 3: Regulation review activities

The Office of Best Practice Regulation (OBPR) was established by the Government within the Productivity Commission in November 2006 and replaced the Office of Regulation Review. The activities of the OBPR are covered in detail in the *Best Practice Regulation Report*, part of the Commission's suite of annual report publications.

The role of the OBPR is to promote the Australian Government's objective of effective and efficient legislation and regulations, and it has been assigned a central role in improving the quality of regulation by administering the Government's best practice regulation requirements.

The OBPR provides advice to government departments and agencies on appropriate quality control mechanisms for the development of regulatory proposals (see the *Best Practice Regulation Handbook*) and provides a similar function for the Council of Australian Governments, ministerial councils and national standard-setting bodies.

In monitoring compliance with the Australian Government's requirements, the OBPR is responsible for determining when further regulatory impact analysis of a proposal is required and the appropriate level of analysis, either in the form of a Regulation Impact Statement (RIS) or a quantitative assessment of business compliance costs. The OBPR provides assistance to approximately 100 Australian Government departments and agencies, ministerial councils and national standard-setting bodies in undertaking regulatory analysis and reports annually on compliance.

Following the introduction of the new regulatory governance arrangements in November 2006, the OBPR is also responsible for managing Annual Regulatory Plans and Regulatory Performance Indicators, promoting the whole-of-government consultation principles and providing technical assistance to officials on cost-benefit analysis and consultation processes. The full range of activities that the OBPR is required to undertake are set out in its charter (box B.3).

The OBPR aims to undertake RIS and compliance cost assessments, consultation and associated activities of a high standard and provide advice useful to government and on time. The resources used in producing this output in 2006-07 were:

- 23.1 staff years; and
- \$4.0 million on an accrual basis.

Box B.3 Charter for the Office of Best Practice Regulation

The role of the Office of Best Practice Regulation (OBPR) is to promote the Australian Government's objective of effective and efficient legislation and regulations. Its functions are to:

- advise Government, departments and agencies on appropriate quality control mechanisms for the development of regulatory proposals and for the review of existing regulations
- examine Regulation Impact Statements and advise whether they meet the Government's requirements and provide an adequate level of analysis, including cost-benefit and risk analysis of appropriate quality
- advise departments and agencies on the Government's requirements for compliance costs assessment, and maintain the Business Cost Calculator as a regulation costing tool
- manage other regulatory mechanisms, including Annual Regulatory Plans and Regulatory Performance Indicators
- promote the whole-of-government consultation principles and provide clear guidance on best practice consultation with stakeholders to be undertaken as part of the policy development process
- provide training and guidance to officials to assist them in meeting the assessment requirements to justify regulatory proposals
- provide technical assistance to officials on cost-benefit analysis and consultation processes
- report annually on compliance with the Government's requirements for Regulation Impact Statements, compliance cost assessment and consultation, and on regulatory reform developments generally
- provide advice to ministerial councils and national standard-setting bodies on Council of Australian Governments' guidelines that apply when such bodies make regulations
- monitor regulatory reform developments in the States and Territories, and in other countries, in order to assess their relevance to Australia
- lodge submissions and publish reports on regulatory issues having significant implications.

The OBPR is to focus its efforts on regulations that restrict competition, have a significant impact on business and individuals or involve medium compliance costs. The OBPR is to ensure that the effects on small business of proposed new and amended legislation and regulations are made explicit and given adequate consideration.

Source: Australian Government (2007c).

Activities in 2006-07

Australian Government regulatory activity

In 2006-07 the total number of regulations introduced (2338) was down slightly on the past two years (table B.9). The number of bills introduced was higher (191 in 2006-07 compared to 149 in 2005-06 and 172 in 2004-05) while the number of disallowable instruments was lower.

While the number of queries received by the OBPR was also lower (780 queries received in 2006-07 compared to 948 queries in 2005-06 and 851 queries in 2004-05), the number of proposals requiring a RIS was higher (17.7 per cent of queries received in 2006-07 compared to 13.5 per cent in 2005-06 and 15.7 per cent in 2004-05). In addition, the OBPR advised that quantification of compliance costs (in the form of a Business Cost Calculator report) was required on 25 occasions (3 per cent of queries received). Table B.9 details the regulation impact analysis (RIA) activities undertaken in the past five years.

Table B.9 Australian Government regulatory and regulatory impact analysis activities, 2002-03 to 2006-07

	2002-03	2003-04	2004-05	2005-06	2006-07
	<i>No.</i>	<i>no.</i>	<i>no.</i>	<i>No.</i>	<i>no.</i>
Regulations introduced					
Bills	174	150	172	149	191
Disallowable instruments ^a	1615	1538	2458	2497	2147
Total introduced	1789	1688	2630	2646	2338
RIA workload					
Total number of new queries received by the OBPR ^b	861	845	851	948	780
Number requiring further analysis	132	169	134	128	163
Proposals finalised in period^{c d}					
RISs required	139	114	85	96	81
RISs prepared	120	109	71	79	72

^a The large numbers of disallowable instruments reported since 2004-05 relate, in part, to the re-making of existing delegated legislation (delegated instruments made before 1 January 2005) under the *Legislative Instruments Act 2003*. ^b In 2006-07, the OBPR received 780 queries. Of these, 388 were received before 20 November 2006 and 392 queries were received on or after 20 November 2006. ^c Proposals introduced into Parliament or made into law in the reporting period. ^d In 2006-07, 63 RISs were required for proposals finalised under the previous RIS requirements, while 16 RISs were required (as two proposals were granted exceptional circumstances status) for proposals finalised under the best practice regulation requirements. Two BCC reports were also required under the new arrangements.

COAG regulatory activity

In advising ministerial councils and national standard-setting bodies on regulatory best practice, the OBPR identified 33 decisions made in the 12 months to 31 March 2007 for which RISs were required. RISs were prepared and assessed as adequate by the OBPR at the consultation stage for 29 proposals and at the decision-making stage for 31 proposals.

The OBPR also reports annually to the National Competition Council on regulation making by ministerial councils and national standard-setting bodies.

Reporting on compliance

The OBPR provides information on its regulatory review activities through the *Best Practice Regulation Report* (formerly *Regulation and its Review*) which is part of the Productivity Commission's annual report suite of publications. The report fulfils the Productivity Commission's and the OBPR's obligation to report annually on compliance with the Government's regulation review and reform requirements. *Regulation and its Review 2005-06* was released on 1 December 2006.

Release of new regulatory guidance material and related initiatives

In line with the OBPR's expanded role in assisting departments meet their regulatory obligations, the OBPR has made available a number of tools, publications and guides in print and online at the OBPR website, linked to the Productivity Commission's website (box B.4).

In November 2006 the OBPR made the Business Cost Calculator available for download on the OBPR website. The Business Cost Calculator is an electronic costing tool designed to assist departments and agencies meet the mandatory requirement to consider business compliance costs for all proposals requiring regulatory impact analysis.

Also in November 2006, the OBPR prepared a draft *Best Practice Regulation Handbook* under the guidance of a Steering Committee of senior officials from the departments of the Prime Minister and Cabinet, Treasury and Industry, Tourism and Resources. The draft Handbook replaced former guidance material, *A Guide to Regulation*. Around 1400 copies of the draft Handbook were distributed for use by policy and regulatory officers in all Australian Government departments, agencies, statutory authorities and boards and to other people interested in regulatory reform. It was also made available online. The draft Handbook was complemented with the ready references *Quickstart to Regulatory Impact Analysis* and the *Users Guide to*

the Best Practice Regulation Handbook, which were made available in hard copy and online. The final version of the *Best Practice Regulation Handbook* was launched by the Secretary of the Department of the Prime Minister and Cabinet in September 2007, along with associated guidance material including a preliminary assessment form. The guidance material is available online with a preliminary assessment 'smart' form.

In September 2006 the Secretary of the Department of the Prime Minister and Cabinet wrote to each department and agency requesting that they nominate a senior executive officer to coordinate regulatory matters within their organisation and help oversight the successful bedding down of the new arrangements.

Each Australian Government department and agency responsible for making regulation has appointed a Best Practice Regulation Coordinator. The role of the Coordinators varies across departments and agencies with many Coordinators taking a strong advocacy role and encouraging and ensuring compliance with the enhanced requirements.

To assist Coordinators in their role, the OBPR organised a forum for Coordinators to receive information on the new arrangements, discuss their roles and responsibilities, and raise issues arising from the rollout of the new arrangements. The OBPR also developed and made available a website for Coordinators where they can access additional material about the new best practice requirements.

Box B.4 Guidance material issued by the OBPR in 2006-07

Since the Australian Government's August 2006 response to the report of the Regulation Taskforce, the Office of Best Practice Regulation made the following tools and guidance material publicly available in the year ending 30 June 2007:

- *Best Practice Regulation Handbook*, (draft) issued November 2006
- *Quickstart to Regulatory Impact Analysis*, (draft) issued November 2006
- User's Guide to the *Best Practice Regulation Handbook*, (draft) issued November 2006
- Business Cost Calculator and supplementary materials, re-issued November 2006 (in line with the change in responsibilities from the Office of Small Business)
- Preliminary Assessment Quickscan, (limited release) first issued January 2007
- Coordinators' website and associated material, including Best Practice Coordinators' bulletin and information sheets.

Regulatory impact analysis training

In addition to providing advice and assistance to policy officers to meet the Australian Government and COAG regulatory impact analysis requirements, the OBPR offered formal training to all departments and agencies in 2006-07. It provided formal training on regulatory best practice to 889 officials from a wide range of departments and agencies:

- 232 senior officials were briefed on the new requirements
- 532 policy officers received training in the new requirements, including changes to the regulatory impact analysis requirements, how to quantify compliance costs and how to prepare a RIS
- 55 policy officers received specific training on how to use the Business Cost Calculator
- 70 officers were provided with an introduction to cost-benefit analysis.

Other activities

In monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2006-07, the OBPR met with officials from the IMF; the OECD; the Legislative Affairs Office of State Council of China; the Indonesian Ministry of Trade; the Regulatory Impact Analysis Unit, New Zealand Ministry of Economic Development; the Investment and Financial Services Association; the Insurance Council of Australia; the Australian Public Service Commission; State and Territory regulatory impact assessment units; and the Victorian Competition and Efficiency Commission.

The OBPR also responded to requests for information on Australia's regulatory impact analysis requirements from the Portuguese, Belgian and Japanese governments.

Quality indicators

The scope of the OBPR's work covers the whole of government. However, the confidentiality of RISs considered by Cabinet limits the extent to which specific matters can be reported publicly.

Evidence of the quality of the OBPR's work is provided by feedback from other government and community bodies, including those that prepare RISs and those that use them.

In 2006-07 the OBPR continued its ongoing survey of officials preparing RISs to obtain feedback on how departments and agencies view the OBPR's work performance and the quality of its service in providing advice on the Government's regulatory best practice requirements. The OBPR dispatches evaluation forms after each RIS has been assessed. The response rate in 2006-07 was 77 per cent (compared to 51 per cent in 2005-06). Sixty per cent of respondents rated the quality of the OBPR's written and oral advice as 'good' (compared to 51 per cent in 2005-06), while 33 per cent rated it as 'excellent' (compared to 27 per cent in 2005-06). Seven per cent of respondents considered the OBPR's service as only 'satisfactory' (compared to 22 per cent in 2005-06). Six respondents offered specific suggestions on how the OBPR could improve the quality of its advice, including:

- more clearly communicating the additional requirements under the new regulatory framework
- having a better understanding of the background to issues
- making its expectations clearer earlier in the process.

As in previous years, the OBPR surveyed the 657 Australian Government officials who received training in regulatory best practice in 2006-07 and 430 responses were received — a response rate of 65 per cent (compared to a response rate of 49 per cent in 2005-06). Trends in RIS/regulatory impact analysis training and its evaluation are shown in table B.10.

Table B.10 RIS/regulatory impact analysis training evaluation, 2002-03 to 2006-07^a

<i>Evaluation</i>	2002-03		2003-04		2004-05		2005-06		2006-07	
	no.	%								
Total number trained	373		355		209		289		657	
Responses received	250	(67)	272	(77)	154	(74)	178	(49)	430	(65)
Excellent	62	(25)	52	(19)	43	(28)	36	(20)	110	(26)
Good	170	(68)	182	(67)	101	(66)	127	(71)	283	(66)
Satisfactory	19	(7)	38	(14)	9	(6)	14	(8)	37	(9)
Unsatisfactory	0	(0)	0	(0)	1	(1)	1	(1)	0	(0)

^a Excludes officials from State/Territory governments, the New Zealand Government or officials assisting ministerial councils and national standard-setting bodies.

The comparatively large number of officials trained in 2006-07 was associated with the OBPR's increased role in training government departments about regulatory best practice, and the increased demand from agencies for training on the new regulation-making framework. The responses indicate that the OBPR training was

well received, with 92 per cent of respondents rating the training as either 'excellent' or 'good'.

Timeliness

The extent to which the OBPR's advice is delivered to regulators and decision makers in a timely manner is also a key indicator of performance. A number of factors can affect the OBPR's timeliness including: the length and quality of the regulatory impact analysis document received; the complexity of the issues/policy proposals canvassed; the familiarity of OBPR staff with the issues covered, including whether the OBPR has had prior contact with the department/agency in relation to the issue; OBPR workloads; and staff availability.

As a general rule, officials preparing RISs are asked to allow the OBPR two weeks to provide advice on their adequacy. However, where further redrafting is necessary, additional time may be needed to ensure that the required adequacy criteria are met. In 2006-07 the OBPR provided formal feedback (comments on the first draft of the RIS) to departments and agencies, on average, eight working days after RISs were received. The ORR provided comments on 96 per cent of all (first draft) RISs received within two weeks.

Under the COAG Principles and Guidelines, the OBPR is also required to provide advice on RISs or BCC Reports for ministerial councils and national standard-setting bodies in a timely manner. When asked for advice in two weeks or less, the OBPR provided advice within the specified timeframe on all occasions in 2006-07.

Indicators of usefulness

The usefulness of the OBPR's regulation review activities in contributing to Government policy making and promoting community understanding of regulatory review and reform issues can be informed by a range of indicators.

- RISs tabled in the Parliament with explanatory memoranda or explanatory statements provide greater transparency regarding the rationale behind the Government's regulatory decisions, resulting in the Parliament and the public being better informed. RISs and the report of the Regulation Taskforce were referred to in Hansard on 36 occasions in 2006-07.

Indicators of the usefulness of the OBPR's regulation review activities in promoting understanding of regulatory best practice are also found in the use of its publications and reports.

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- The Australian Government cited compliance data from *Regulation and its Review 2005-06* in its *National Competition Policy Report 2005–07* and the data were also used in policy statements by the Opposition (eg, Rudd 2007b, c; Emerson 2007).
 - The Business Council of Australia drew on the 2005-06 report in compiling its own assessment of regulatory reform, *A Scorecard of State Red Tape Reform*. In addition, the BCA stated:

The BCA strongly supports a process of accountability that includes an independent agency like the Office of Best Practice Regulation, which provides oversight of the RIS process and reports on the adequacy of RISs each year in its annual publication *Regulation and its Review*. Transparency and accountability mechanisms are essential for ensuring that regulation-making processes are properly implemented and adhered to. (BCA 2007c, p. 5)
 - Data from the 2005-06 Regulation and its Review were also used in the WTO Trade Policy Review (WTO 2007).
 - Approximately 1550 printed copies of *Regulation and its Review 2005-06* were distributed (including copies distributed to each Member of the Federal Parliament) and there was coverage of the report in national newspapers.
 - In the year ending 30 June 2007, there were 2260 requests for *Regulation and its Review 2005-06* from the Productivity Commission’s website and a total of around 3960 requests for the previous two reports.

The OBPR also provides information on regulatory best practice via its website. From 1 July 2006 to 19 November 2006, the ORR website received more than 8000 viewing requests. From 20 November 2006 to 30 June 2007, the OBPR website received more than 211 000 viewing requests and the BCC website, which went live in January 2007, received more than 78 000 requests. There were more than 70 000 requests for best practice regulation material (including the draft version of the *Best Practice Regulation Handbook*, released in November 2006, and the BCC). Quickstart was requested more than 6100 times and the Users Guide was requested more than 9700 times. There were more than 35 600 requests for the chapters of the *Best Practice Regulation Handbook* and 9300 requests for the appendices. The COAG Principles and Guidelines were requested more than 1200 times in 2006-07.

Output 4: Competitive neutrality complaints activities

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) 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 AGCNCO is to:

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

The AGCNCO aims to finalise most investigations and report to the 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 2006-07 were:

- 1.0 staff years; and
- \$0.2 million on an accrual basis.

Activities in 2005-06

Complaints activity

The AGCNCO received one formal complaint during 2006-07 (table B.11). Details of the complaint, including the action taken, is reported in appendix D.

Table B.11 Formal competitive neutrality complaints, 2002-03 to 2006-07

<i>Activity</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>
Written complaints received	1	9	4	4	1
Action:					
New complaints formally investigated	–	1	–	–	1
Complaints investigated but not proceeding to full report ^a	–	1	–	4 ^b	–
Complaints not investigated	1	6	3	1	–
Reports completed	–	1	1	–	–
Complaints on hand (30 June)	–	1	1	–	1

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

Advice on the application and implementation of competitive neutrality

An important part of the AGCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2006-07 the AGCNCO provided advice around three times a week, on average, to government agencies or in response to private sector queries either over the telephone or in *ad hoc* meetings.

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

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

Quality indicators

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

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

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

Timeliness

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

Formal investigations can involve provision of significant amounts of data to the Office by both the complainant and the government business subject to complaint. In these situations the Office does not consider it is conducive to good outcomes to enforce a 90 day time limit on formally reporting on complaints.

Indicators of usefulness

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

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

The AGCNCO continues to receive a range of informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments continue to be received from government and private sector agencies on the usefulness of two AGCNCO publications — on cost allocation and pricing, and rate of return issues — in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand and use. For example, the guidance note on the cost of capital for competitive neutrality purposes recently issued by the Victorian Competition and Efficiency Commission (2007) drew on the rate of return paper. During 2006-07 there were more than 9300 external requests to the website for AGCNCO investigation reports and about 2300 external requests for AGCNCO research publications.

Output 5: Supporting research and activities and statutory annual reporting

While much of the Productivity Commission's research activity is externally determined, it has some discretion in meeting its legislative charter to undertake a supporting program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation. The expectations for its supporting research program are that:

The Commission has a self-initiated research program which will complement its other activities. Research themes would be responsive to the views of Governments and business and welfare groups. A major focus for this research will be to analyse the factors underlying productivity growth and social policy issues. (Costello 1998)

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 2006-07 were:

- 35.8 staff years; and
- \$6.2 million on an accrual basis.

Activities in 2006-07

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 2005-06, tabled in Parliament on 31 October 2006, which focused on major challenges facing Australia's governments in progressing the National Reform Agenda
 - two companion publications on regulatory developments in 2005-06 and on trade and assistance issues, released in December 2006 and April 2007, respectively
- a major Commission Research Paper informing COAG on the potential benefits of the National Reform Agenda
- a submission to the Prime Ministerial Task Group on Emissions Trading
- a joint report with the Australian Bureau of Statistics on the characteristics of Australia's irrigated farms
- publication of the Chairman's presentation, *Regulation for Australia's Federation in the 21st Century*, to the 2006 Melbourne Institute/The Australian Social and Economic Outlook Conference, as well as four other presentations made by the Chairman and posted on the Commission's website
- the Richard Snape Lecture, *The World Economy in the New Millennium: A Golden Age?*, delivered by Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles, Professor Emeritus of Political Economy, University College, London and former Research Administrator at the World Bank) on 30 November 2006 and subsequently published
- the Commission contributes to the China Australia Governance Program, the aim of which is to address governance issues which have an impact on the effectiveness of poverty alleviation in China. Commissioner Mike Woods is the Chair of the Fiscal Reform Implementation Planning Committee and undertook a number of review and planning missions in 2006-07

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- maintaining access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
 - four Staff Working Papers on labour force participation and productivity research
 - other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The presentation by Deepak Lal was the fourth in a series of lectures in memory of Professor Richard Snape, the former Deputy Chairman of the Commission and Emeritus Professor of Economics at Monash University, who died in October 2002. The series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience. Previous lectures have been delivered by Professor Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006) and Martin Wolf (associate editor and chief economics commentator at the *Financial Times*).

The research publications produced in the supporting research program in 2006-07 are listed in box B.5. Supporting research proposals were considered against the Commission's intention that the program continue to emphasise the sustainability of productivity improvements — including environmental and social aspects — and encompass work on:

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

Research projects underway at 30 June 2007 are shown in box B.6.

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 79 presentations given by the Chairman, Commissioners and staff in 2006-07 are provided in appendix E.

Quality indicators

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

For example, the quality assurance process for its study of the potential benefits of the national reform agenda involved:

- a series of workshops at which work-in-progress was discussed with representatives of Commonwealth, State and Territory government agencies as well as by experts in the areas covered by the NRA and representatives of the Energy Reform Implementation Group
- a separate workshop to report on progress in updating the MMRF–NRA model

Box B.5 Supporting research and annual reporting publications, 2006-07

Annual report suite of publications

Annual report 2005-06

Regulation and its review 2005-06

Trade & assistance review 2005-06

Commission research papers

Potential benefits of the National Reform Agenda

Submission

Productivity Commission submission to the Prime Ministerial Task Group on Emissions Trading

Chairman's published speech

Regulation for Australia's federation in the 21st century

Joint ABS/Productivity Commission report

Characteristics of Australia's irrigated farms, 2000-01 to 2003-04

Staff working papers

Workforce participation rates — how does Australia compare?

Men not at work: an analysis of men outside the labour force

Can Australia match US productivity performance?

Effects of health and education on labour force participation

2006 Richard Snape Lecture

The World Economy in the New Millennium: A Golden Age? (Deepak Lal)

- a workshop, held in September 2006, to obtain feedback on the Commission's preliminary results
- consultations with sectoral experts including officials from five Commonwealth departments, the ACCC, Bureau of Transport Economics, Energy Reform Implementation Group, National Energy Market Company, the Australian Energy Users Association, the Australian Council for Educational Research, academics, and Commonwealth and State Treasury officials.

Research projects can involve consulting with key interested parties on the issues they view as important and obtaining access to information. For example, the staff working paper analysing factors underlying men's disengagement from the Australian labour market benefited substantially from comments and feedback on

Box B.6 Supporting research projects underway at 30 June 2007

The influence of infrastructure on productivity	Recent declines in productivity growth in the mining sector: causes and consequences
Public economic infrastructure financing – an international perspective	Water use in Australian agriculture and farm performance
Precaution and the precautionary principle: two Australian case studies	Towards urban water reform: issues and options
Trends in the demand and supply of aged care services – some implications	Part-time work in Australia – a profile
Experimental measures of productivity change in the education sector	Links between literacy and numeracy skills and labour market outcomes
Theory and evidence of skill shortages in Australia	Migration, international trade and investment
Effects of health and education on wages	Recent developments in Australian fertility
An alternative to the Armington assumption for models of world trade	Measuring productivity in health service delivery
A user interface for updating and running the Commission's demographic models	Developing an improved self-employed contractor question module for the 2008 HILDA survey
The distributional impact of health outlays: developing the research and modelling infrastructure for policy makers (SPIRT Project) *	Assessing the social and fiscal policy implications of an ageing population (ARC Linkage Grant) *
Setting priorities for services trade reform (ARC Linkage Grant) *	

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

various factual aspects from agencies such as the Australian Bureau of Statistics, the Department of Employment and Workplace Relations and the OECD.

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, an early version of the staff working paper on Australia's potential for productivity catch up was presented to a Commonwealth–State Forum on Economic Framework Issues, convened by the Commonwealth Treasury in August 2006. Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees for staff working papers in 2006-07 were drawn from the Commonwealth Treasury, the Groningen Growth and Development Centre (The Netherlands), the Melbourne Institute of Applied Economic and Social Research and Monash University.

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

- the Prime Minister's statement in parliamentary debate on the interpretation of productivity measures and use of productivity material on the Commission's website that:

I would have thought that the best authority I could quote was in fact the Productivity Commission itself. (Howard 2007c, p. 77)

- the request conveyed by the Secretary to the Commonwealth Treasury, on behalf of COAG Senior Officials, that the Commission use its supporting research capabilities to investigate the potential economic and government revenue impacts of the National Reform Agenda
- the decision of the Energy Reform Implementation Group to work in cooperation with the Commission in quantifying the wider economic benefits of electricity market reform as part of the NRA study
- the Committee for Economic Development of Australia decision to disseminate the findings from Commission supporting research reports on non-traditional employment, international comparisons of workforce participation rates and Australia's productivity potential in its magazine, *Australian Chief Executive*, in December 2006, July 2007 and October 2007 respectively
- the request by the South Australian Centre for Economics to publish a presentation on Australia's productivity growth by Assistant Commissioner Dean Parham in its series, *Economic Issues*, and the citation of productivity research in international journals (eg, Sharpe 2007).

Timeliness

The Commission's annual report for 2005-06, including its theme chapter on challenges in progressing the National Reform Agenda, was completed on schedule and tabled in Parliament on 31 October 2006. The annual report companion volumes, and most other supporting research publications listed in box B.5, met completion schedules set by the Commission.

The Commission was originally requested to present its assessment of the potential benefits of the National Reform Agenda by 30 November 2006. This deadline was subsequently revised to 22 December 2006 to coincide with the reporting date for its inquiry on road and rail freight infrastructure pricing. As modified modelling from this inquiry was incorporated in the analysis, the NRA study could not be presented to COAG before the road and rail inquiry results were sent to the Australian Government.

A number of supporting research projects in 2006-07 were placed on hold as resources were diverted to servicing government projects and the NRA study. For example, the supporting research project on the life cycle working choices of women was paced on hold pending completion of the public inquiry on retail tenancies. The priority accorded government-commissioned projects and the NRA study means that a lower priority supporting research project can often take longer than anticipated, even though it is delivered within the original budget. Research projects which are not strongly time sensitive can be resourced intermittently. Redefinition of project scope and delays in obtaining data and referee comments can also be reasons for delays in completion times. The more experimental or exploratory the project, the more difficult it is to schedule completion.

Indicators of usefulness

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

- The Treasurers of Victoria and Western Australia, as well as the Chief Minister of the ACT, separately welcomed the Commission's independent assessment of the potential benefits of the National Reform Agenda (Brumby 2007; Ripper 2007; Stanhope 2007). The Australian Government's 2007 annual report to the OECD on competition policy developments drew on the Commission's NRA

report, as did the Parliamentary Secretary to the Treasurer (Pearce 2007), numerous Opposition policy documents (eg, Rudd 2007c; Rudd and Roxon 2007a, b, c; Rudd and Macklin 2007; Emerson 2007), business and other groups (BCA 2007e; Australian Industry Group 2007; Australian Council of Trade Unions 2007).

- In two statements on long-term greenhouse gas reduction targets, the Prime Minister drew on the Commission's submission to the Prime Ministerial Task Group on Emissions Trading in the following ways:

... a decision taken on a long-term target will be the most important economic decision that Australia takes in the next decade. And I want to ensure that any decision is made very carefully in a way that takes full account of jobs and investment in Australia, of climate change action by others and of global technology developments. Because as the Productivity Commission has warned, there are potentially very serious costs to Australia from acting alone and getting this decision wrong. (Howard 2007a)

The Productivity Commission has made it very clear that if we independently set targets and we don't take regard to the rest of the world, the impact will be costly. (Howard 2007b)

- Recent outputs from the Commission's stream of labour market research are in wide use. The findings from the Staff Working Paper *Workforce Participation Rates – How Does Australia Compare?* were cited the Commonwealth's 2007-08 Budget Papers, by the NSW Government (2007), in policy documents (eg Rudd and Macklin 2007) and by the Business Council of Australia (BCA 2007a). This Staff Working Paper, together with that on *Men Not at Work*, have both been used in Reserve Bank research (Betts et al. 2007) and by the BCA (2007b). The Commonwealth's 2007-08 Budget Papers and the NSW Government (2007) also cited the 2006 Commission Research Paper, *The Role of Non-Traditional Work in the Australian Labour Market*.
- The continuing usefulness of the Commission's stream of research on Australia's productivity performance is demonstrated by widely based references to it. The Commission's website-based productivity material was used by the Prime Minister (Howard 2007c), by the Australian Government in a background paper preceding its Industry Statement (ITR 2007a), the Opposition (Rudd and Smith 2007; Rudd and Carr 2007), the Business Council of Australia (2007c, d), the Australian Council of Social Services (2007) and consultants (eg Allen Consulting 2007c; Econtech 2007). The Staff Working Paper, *Can Australia Match US Productivity Performance?*, has been cited by the BCA (2007d), in federal parliamentary debate and in various policy discussion papers (eg Rudd and Carr 2007; Emerson 2007). A variety of other Commission supporting research outputs on productivity matters was also used elsewhere during the year, including in OECD work (Høj et al. 2007).

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- The Commission's path breaking work in modelling the economic impacts of barriers to trade in services has enabled researchers at the OECD and others to illustrate the potential for services trade liberalisation (Dihel and Shepherd 2007; Lejour et al 2007).
 - The Commission's series of sectoral studies on agriculture, manufacturing and services continue to be used. Examples of the use of 2005 paper, *Trends in Australian Agriculture*, include the Government's response of March 2007 to the House of Representatives Committee Report *Getting a better return*, the WTO (2007), the House of Representatives Committee report on rural skills training and research, the Central West Independent Review Panel (2007) and the National Farmers' Association (2007). The 2003 paper *Trends in Australian Manufacturing* was referred to extensively in Rudd and Carr (2007) and by the WTO (2007); and the BCA (2007d) cited the discussion of the factors contributing to the growing demand for services in the Commission's 2002 paper, *Australia's Services Sector, A Study in Diversity*.
 - *Trade & Assistance Review*, part of the Commission's suite of annual reporting, is used widely in discussion of industry assistance and trends. For example, various reports from the series were cited by the WTO (2007), extensive use of manufacturing and service sector data from the 2005-06 Review was made by the Australian Government in the lead up to its Industry Policy Statement (ITR 2007b, c) and use by the Australian Industry Group (2006) in its submission to the Government.
 - Papers from the Commission's roundtable proceedings on *Productive Reform in a Federal System* were cited by the IMF (2007), the BCA (2006) and in NSW Parliamentary Library Research Service briefing (Griffith 2006).
 - The Chairman's speeches receive media and editorial coverage and are used by others in policy analysis and debate, including in parliament. For example, during the year, various of his speeches on improving regulatory processes were cited in parliamentary debate and in policy development and evaluation (Emerson 2007; BCA 2007c); on Australia's productivity performance (Rudd and Smith 2007; Emerson 2007); on the ageing population by the BCA(2007b); and on Indigenous disadvantage by the Aboriginal and Torres Strait Islander Social Justice Commissioner (2006). Speeches by the Chairman were cited in international reviews by the WTO (2007) and IMF (2006).
 - Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables B.1 and B.2, respectively.

More generally, important means by which supporting research activities contribute to public debate are through media coverage, the dissemination of reports to key

interest groups and ready access to reports on the Commission's website. The Commission's NRA study attracted five editorials in major newspapers in 2006-07; there were three editorials drawing on its productivity analysis and one each on its annual report and the Trade & Assistance Review. To 30 June 2007, for the reports listed in box B.5, there were more than 27 200 external requests for the index pages on the Commission's website. There was a total of more than 104 200 external requests for the 45 supporting research reports for which website usage was tracked and more than 18 000 requests for speeches given by the Commission's Chairman.

C Government commissioned projects

The nature and breadth of the public inquiries and research studies 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 the Commission's 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 summaries of terms of reference for new inquiries and projects, and the principal findings and recommendations from reports which have been released, together with government responses to those reports.

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides summary details of projects which the Government commissioned during the year and government responses to reports completed in 2006-07 and previous years. It also reports on commissioned projects received since 30 June 2007.

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 2005-06 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					
6-4-05	Conservation of Australia's Historic Heritage Places	AR 04-05	Report No. 37 signed 6-4-06	AR 05-06	page 171
20-10-05	Waste Management	AR 05-06	Report No. 38 signed 20-10-06	page 172	page 173
23-2-06	Road and Rail Freight Infrastructure Pricing	AR 05-06	Report No. 41 signed 22-12-06	page 174	page 175
21-3-06	Tasmanian Freight Subsidy Arrangements	AR 05-06	Report No. 39 signed 14-12-06	page 176	page 177
6-4-06	Review of Price Regulation of Airport Services	AR 05-06	Report No. 40 signed 14-12-06	page 178	page 179
11-12-06	Australia's Consumer Policy Framework	page 165	in progress	na	na
21-6-07	Market for Retail Tenancy Leases in Australia	page 176	in progress	na	na
17-10-07	Safeguards Inquiry into the Import of Pigeon	page 170	In progress	na	na
Other commissioned projects					
16-3-05	Review of the Australian Consumer Product Safety System	AR 04-05	Report completed 16-1-06	AR 05-06	page 184
2-2-06	Standard Setting and Laboratory Accreditation	AR 05-06	Report completed 2-11-06	page 180	na
10-3-06	Public Support for Science and Innovation	AR 05-06	Report completed 9-3-07	page 181	page 182
11-8-06	Performance Benchmarking of Australian Business Regulation (Stage 1)	AR 05-06	Report completed 19-2-07	page 183	page 184
28-2-07	Annual Review of Regulatory Burdens on Business – Primary Sector	page 166	Report completed 5-11-07	na	na
4-4-07	Assessing Local Government Revenue Raising Capacity	page 167	in progress	na	na
27-7-07	Chemicals and Plastics Regulation	page 168	in progress	na	na
5-9-07	Business Regulation Benchmarking: Stage 2	page 169	in progress	na	na

na not applicable. Note: References are to previous annual reports (AR) 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 2005-06 which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in relevant reports.

Australia's consumer policy framework

On 11 December 2006 the Treasurer asked the Commission to undertake an inquiry on Australia's consumer policy framework and to report within 12 months. Following a request by the Commission, the reporting date was subsequently extended to 28 February 2008.

The Commission is to report on:

- ways to improve the consumer policy framework so as to assist and empower consumers, including disadvantaged and vulnerable consumers, to meet current and future challenges, including the information and other challenges posed by an increasing variety of more complex product offerings and methods of transacting
- any barriers to, and ways to improve, the harmonisation and coordination of consumer policy and its development and administration across jurisdictions in Australia, including ways to improve institutional arrangements and to avoid duplication of effort
- any areas of consumer regulation which are unlikely to provide net benefits to Australia and which could be revised or repealed
- the scope for avoiding regulatory duplication and inconsistency through reducing reliance on industry-specific consumer regulation and making greater use of general consumer regulation
- the extent to which more effective use may be made of self-regulatory, co-regulatory, consumer education and consumer information approaches and principles-based regulation in addressing consumer issues
- ways in which the consumer policy framework may be improved so as to facilitate greater economic integration between Australia and New Zealand and ways to remove any barriers to international trade in consumer goods and services created by the current consumer policy framework.

Annual review of regulatory burdens on business

On 28 February 2007 the Treasurer announced a program of annual reviews of the burdens on business arising from the stock of Australian Government regulation. Following consultation with business, government agencies and community groups, the Commission is to report on those areas in which the regulatory burden on business should be removed or significantly reduced as a matter of priority and options for doing so.

The Commission is to review all Australian Government regulation cyclically every five years. The cycle commenced in April 2007 with a review of regulatory burdens on businesses in Australia's primary sector and the Commission was to report by 31 October 2007.

In subsequent years, the Commission is to report sequentially on the manufacturing sector and distributive trades, social and economic infrastructure services, and business and consumer services. The fifth year is to be reserved for a review of economy-wide generic regulation, and regulation that has not been picked up earlier in the cycle. The Commission's program and priorities may be altered in response to unanticipated public policy priorities as directed by the Treasurer. These reviews are to commence formally at the beginning of February each year and the Commission is to report at the end of August.

In undertaking these reviews, the Commission is to:

- identify specific areas of Australian Government regulation that
 - are unnecessarily burdensome, complex or redundant or
 - duplicate regulations or the role of regulatory bodies, including in other jurisdictions
- develop a short list of priority areas for removing or reducing regulatory burdens which impact mainly on the sector under review and have the potential to deliver the greatest productivity gains to the economy
- identify regulatory and non-regulatory options, or provide recommendations where appropriate to alleviate the regulatory burden in those priority areas, including for small business
- identify reforms that will enhance regulatory consistency across jurisdictions, or reduce duplication and overlap in regulation or in the role of regulatory bodies in relation to the sector under review.

Assessing local government revenue raising capacity

On 4 April 2007 the Treasurer asked the Commission to undertake a research study examining local government's own revenue sources and to report within 12 months.

The Commission is to examine the capacity of local government to raise revenue including:

- the capacity of different types of councils (eg capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time
- the impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government
- the impact of any State regulatory limits on the revenue raising capacity of councils.

In undertaking the study the Commission is not to investigate the scope for local governments to borrow.

The market for retail tenancy leases in Australia

On 19 June 2007 the Treasurer asked the Commission to undertake an inquiry into the market for retail tenancy leases in Australia and to report within six months of receipt of the reference.

The Commission is to examine:

- the structure and functioning of the retail tenancy market in Australia, including the role of retail tenancies as a source of income for landlords, investors and tenants and the relationships with the broader market for commercial tenancies
- any competition, regulatory and access constraints on the economically efficient operation of the market
- the extent of any information asymmetry between landlords and retail tenants and the impacts on business operation
- scope for reform of retail tenancy regulation to improve economic performance, including
 - differences in retail tenancy regulation between States and Territories, and the scope for nationally agreed regulations and approaches
 - the extent and adequacy of dispute resolution systems for landlords and retail tenants, including differences in dispute resolution frameworks between the States and Territories

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- the appropriateness and transparency of the key factors that are taken into account in determining retail tenancy rents
 - the appropriateness and transparency of provisions in retail leases to determine rights when the lease ends
 - any measures to improve overall transparency and competitiveness of the market for retail tenancy leases.

The Commission is requested to:

- make recommendations for improving the operation of the retail tenancy market
- identify, and where practicable quantify, the likely benefits and costs of its recommendations for retail tenants, landlords, investors and the community generally.

Chemicals and plastics regulation

On 26 July 2007 the Treasurer announced that the Commission would undertake a research study examining current arrangements for the regulation of chemicals and plastics in Australia and would report within 12 months. The study is to inform the work of a COAG Ministerial Taskforce charged with developing a streamlined and harmonised system of national chemicals and plastics regulation. The study does not include pharmaceutical and medicinal product manufacturing.

The Commission is to:

- Investigate and document the current system of regulation of chemicals and plastics in Australia, including the interrelationships between the Australian, State and Territory government agencies, and local government layers of regulation, and the effect of these relationships on economic, public health and safety, occupational health and safety, and environmental outcomes. In examining these relationships, issues such as duplication and inconsistency both within and across jurisdictions should be identified. In particular, an assessment should be conducted of the impact of regulation on productivity and competitiveness.
- Investigate the degree to which Australian regulations diverge from accepted standards (both international and those applying in similar jurisdictions overseas) and the costs and benefits of those variations. In doing so, the Commission should examine Australia's implementation of the United Nations' Globally Harmonised System of Classification and Labelling of Chemicals, and take into account the work underway to achieve mutual recognition and

harmonisation with New Zealand in relation to industrial chemicals under the Trans-Tasman Mutual Recognition Arrangement.

- Examine the efficiency of existing arrangements for security-sensitive ammonium nitrate, recognising that the requirement to achieve the Government's national security outcomes cannot be diminished, and having regard to the work being progressed by COAG's Review of Hazardous Materials.
- Report on the efficiency and effectiveness of current institutional and regulatory frameworks for chemicals and plastics regulation in Australia in achieving economic, public health and safety, occupational health and safety, and environmental outcomes.
- Make recommendations for reforms to regulations and regulatory arrangements and the establishment of a best practice governance framework including options to enhance national uniformity and consistency, to streamline data requirements and assessments processes to reduce unnecessary compliance burdens, and for alternatives to regulation.

Business regulation benchmarking: stage 2

Consistent with COAG's agreement on 13 April 2007 to the Commission benchmarking compliance costs of regulations in targeted areas, on 3 September 2007 the Treasurer requested that the Commission begin stage two of the study and initially provide a draft and final report on the quantity and quality of regulation, and results of benchmarking the administrative compliance costs for business registrations within 12 months. The Commission is to examine the regulatory compliance costs associated with becoming and being a business, the delays and uncertainties of gaining approvals in doing business, and the regulatory duplication and inconsistencies in doing business interstate.

In undertaking stage two of the study, the Commission is to convene an advisory panel, comprising representatives from all governments, to be consulted on the approach taken in the first year. The panel is to be reconvened at strategic points, providing advice on the scope of the benchmarking exercise and facilitating and coordinating data provision. It must also be given the opportunity to scrutinise and comment on the preliminary results.

Under the framework terms of reference for the benchmarking study, received on 11 August 2006, in stage 2 the Commission is to:

- use the indicators to compare jurisdictions' performance
- comment on areas where indicators need to be refined and recommend methods for doing this

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- provide a final report which incorporates the comments of the jurisdictions on their own performance. Prior to finalisation of the final report, the Commission is to provide a copy to all jurisdictions for comment on performance comparability and relevant issues. Responses to this request are to be included in the final report.

The Commission is to review the benchmarking exercise at the conclusion of year three and report on options for the forward program of benchmarking.

Safeguards inquiry into the import of pigmeat

On 17 October 2007 the Treasurer requested that the Commission undertake an inquiry on whether safeguard action is warranted against imports of meat of swine, frozen, falling within tariff subheading 0203.29 of the Australian Customs Tariff.

The Commission is to report on:

- whether conditions are such that safeguard measures would be justified under the WTO Agreements
- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment
- whether, having regard to the Government's requirements for assessing the impact of regulation which affects business, those measures should be implemented.

In undertaking the inquiry, the Commission is to consider and provide an accelerated report on whether critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair. If such circumstances exist, and pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury, the Commission is to recommend what provisional safeguard measures (to apply for no more than 200 days) would be appropriate.

In addition, the Commission is to have regard to the work being undertaken by the Cooperative Research Centre for an internationally competitive pork industry (Pork CRC) and examine and report on whether:

- there have been any changes that have taken place in the structure or operating methods of the industry since the Commission's August 2005 inquiry into the Australian Pigmeat Industry; and

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- there are any immediate actions that could be taken to complement the work of the Pork CRC to alleviate the impact of changes in the price and availability of feed grains.

The Commission is to provide the accelerated report to the Government by 14 December 2007 and a final report by the end of March 2008.

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 23 November 2007. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Conservation of Australia's historic heritage places

Inquiry Report No 37 signed 6 April 2006, report released 21 July 2006.

The Australian Government's response to the Commission's report was tabled in Parliament on 22 May 2007.

The Government agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing. However, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. Instead, the Commonwealth proposed a range of other measures to minimise the risk of imposing unreasonable costs at all levels of government and to refer the issue of appeal rights to the Environment Protection and Heritage Council so that ministers could consider the best way forward. The Government rejected recommendations that all levels of government recognise and separately fund the heritage responsibilities of non-heritage agencies as community service obligations and for transparency in reporting heritage-related expenditures and costs.

The Commonwealth supported, in whole or part, eight recommendations including improved data collection, maintenance and dissemination as well as the provision of heritage asset management guidelines to encourage best practice management at all levels of government. However, the Commonwealth also noted in response to other Commission recommendations that it was for the States and local government to decide how to balance the rights of individuals with community needs for the conservation and protection of heritage places.

Waste management

Inquiry Report No 38 signed 20 October 2006, report released 19 December 2006.

The Commission's main findings and recommendations were that:

- State and Territory waste management policies contain some inappropriate and inconsistent objectives. These have led to some jurisdictions adopting unrealistic, and potentially very costly, waste minimisation targets.
- These policies are giving rise to some unsound interventions including:
 - using landfill levies to achieve waste diversion targets and raise revenue
 - subsidising waste recovery options, such as alternative waste technologies, that are costly and have questionable environmental benefits
 - introducing mandatory product stewardship or extended producer responsibility schemes, where disposal problems have not been adequately demonstrated.
- Waste management policy should be refocused on the environmental and social impacts of waste collection and disposal, and supported by more rigorous cost-benefit analysis, if it is to best serve the community.
- As a general rule, policy makers should not use waste management policies to address upstream environmental impacts. Where warranted, these are much more effectively and efficiently addressed using direct policy instruments, and often already are.
- Directly addressing relevant market failures and distortions throughout product life cycles will assist markets to achieve the right balance between waste avoidance, resource recovery and disposal.
- Regulation of disposal has improved considerably in recent years, and where complied with, appears to have been very effective. However, compliance with landfill regulations could be improved considerably.
- Waste disposal fees should be based on the full social, environmental and financial costs involved. For landfills, this will require:
 - tightening regulatory compliance so that landfill gate fees include the costs of the regulatory measures needed to address disposal externalities
but
 - abolishing landfill levies (taxes) as these are not based on legitimate costs.
- Basic forms of pay-as-you-throw pricing for kerbside waste and recycling services, should be more widely adopted, with information on the actual costs for these services better communicated to households.

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- In most large urban centres, for reasons of scale and planning (as with sewage and electricity), managing waste disposal is no longer best handled by local governments.
 - The Australian Government should play a leadership role in facilitating (relevant) reforms, and where appropriate, developing sound, nationally consistent waste management policies.

Government decision

The Australian Government's response to the Commission's report was tabled in Parliament on 1 August 2007.

The Australian Government endorsed the overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making. However, it rejected the Commission's broad policy framework recommendations that:

- a focus on upstream resource conservation and environmental protection objectives detracts from a more appropriate focus on reducing risks — to human health, the environment and social amenity — from waste to acceptable levels
- waste management policy should not be used to promote 'resource efficiency' — defined as the value added per unit of resource input — because such measures fail to take into account use of all resources and often aggregate quantities of different materials in ways that ignore their individual market values or environmental impacts
- a waste hierarchy is not a useful tool to guide waste policy
- waste diversion targets should not be set as part of waste management policy.

The Commonwealth noted that the States and Territories have prime responsibility for domestic waste management policy. It would formally raise some Commission recommendations — such as nationally consistent waste classification and data systems — in the Environment Protection and Heritage Council but in other areas — such as landfill regulation — policy action would be left to individual jurisdictions.

The Commonwealth endorsed a range of other recommendations including those on the assessment of plastic bag regulation; to expand terms of reference for the 2008 review of the National Packaging Covenant beyond an assessment of effectiveness; avoidance of mandatory standards for recycled content in products; the supply of factually accurate, relevant and publicly accessible information on the risks, costs and benefits of waste management issues; and leaving the provision of waste-exchange services to private markets.

Road and rail freight infrastructure pricing

Inquiry Report No 41 signed 22 December 2006, report released 13 April 2007.

The Commission's main findings and recommendations were that:

- Efficient freight infrastructure is of particular importance to Australia, given its dispersed population and production centres.
 - Current pricing and regulatory arrangements are hampering the efficient provision and productive use of road and rail infrastructure.
- Maintaining cost recovery for road freight infrastructure is an important objective. Heavy trucks have been more than paying their way in aggregate under the PAYGO system administered by the National Transport Commission.
 - However, cost allocations have been 'conservative' and are being reviewed.
 - The recent surge in road spending makes it likely that heavy vehicle charges will need to rise.
- Competitive distortions *between* road and rail have been limited and not a significant source of market inefficiency.
 - The case that road is subsidised relative to rail is not compelling, even accounting for externalities.
 - And even if network road charges were greatly increased, rail would not derive much benefit given limited substitutability and much complementarity between the two transport modes.
- The main efficiency losses with current road charging arrangements derive from the averaging of costs and charges under PAYGO, and the disconnect between road revenue and spending decisions.
 - These provide poor price signals and distort the incentives needed for efficient road use and provision.
- Developments in road pricing technology create the opportunity for more cost-reflective pricing which, combined with institutional changes to link road supply and demand, offer the potential for substantial efficiency gains.
- Given the costs and uncertainties, and potential distributional impacts, a sequential approach to reform is needed, overseen by COAG.
 - This should begin with improvements to the PAYGO system, coupled with regulatory reform and improved investment decision-making processes.
 - The next phase would involve incremental pricing for trucks currently excluded from parts of the network, and institutional reforms (to help connect

revenues and spending decisions, and reduce political influence), before moving to introduce wider location-based pricing.

- Each step should be preceded by more detailed examination of costs, benefits and distributional impacts, and identification of appropriate adjustment mechanisms.
- Regulatory reforms would have a more beneficial impact on rail's performance than increases in road charges.

Government decision

In its communiqué of 13 April 2007, COAG announced that it broadly endorsed the reform blueprint proposed by the Commission. Further, it accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode. In brief, COAG:

- endorsed the need for overall cost recovery in road freight, removing cross-subsidisation across heavy vehicle classes, improving the road pricing determination process and undertaking research recommended by the Commission
- agreed with the Commission's phased reform agenda for road pricing, regulation and institutional arrangements (though bringing forward the timing of some research and feasibility studies) and for rigorous of benefits and costs of each implemented reform in Phase 1 before deciding to proceed with subsequent stages
- in terms of road pricing, endorsed the Commission's proposed approach of initially improving the PAYGO system and subsequently developing the building blocks for COAG to assess the merits of mass-distance location-based charging
- committed to a range of reforms to improve investment decision-making processes within existing road funding arrangements and, although not embracing 'road funds', by July 2010 each jurisdiction will consider examining institutional arrangements to better link road freight revenues to investment and enhance decision making
- committed to a nationally consistent approach to rail regulation but deferred to initiatives being progressed under COAG's Competition and Infrastructure Reform Agreement in responding to a number of the Commission's key rail proposals.

Tasmanian freight subsidy arrangements

Inquiry Report No 39 signed 14 December 2006, report released 24 May 2007.

In its draft report, the Commission advised that it could find no sound economic rationale for providing freight assistance to particular Tasmanian shippers. Further, modelling commissioned by the Tasmanian Government demonstrated that the schemes benefit Tasmania, but at a small net cost to the Australian community as a whole. Accordingly, the Commission's draft report contained a proposal that the Tasmanian Freight Equalisation Scheme (TFES) be phased out and the Tasmanian Wheat Freight Scheme (TWFS) be abolished.

In September 2006 the Prime Minister announced that the TFES is an important element of Australian Government programs that equalise cost disadvantages between the States and Territories and stated that both schemes would continue (Howard 2006). The Commission accordingly focused its final report on reforms that would improve the efficiency and effectiveness of the schemes.

The Commission's main findings and recommendations in its final report were that:

- Tasmanian producers rely heavily on shipping to access mainland markets — the cost of shipping a container across Bass Strait can be more than double the cost of road transport for a similar distance on the mainland.
- The operational objective for the TFES is to subsidise individual shippers' sea freight cost disadvantages relative to a road freight equivalent. However, there is no sound underlying economic rationale for the scheme.
 - If a broader objective of regional development is intended, a sea freight subsidy is unlikely to be the most economically efficient way of meeting this.
- The current arrangements do not operate as intended. The different ways of claiming rebates for the same freight task can result in different TFES payments.
 - Part of the land freight cost can be treated as a wharf-to-wharf cost.
 - A higher wharf-to-wharf cost can be reported within an overall door-to-door cost.
- This results in an overestimate of the extent of wharf-to-wharf freight cost disadvantage, payment of higher than appropriate rebates and poor incentives for shippers. These significant problems cannot be eliminated within the current TFES framework.
- As the Government had announced that the scheme is to continue, the Commission focused on ways to improve its operation.

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- For the immediate future, the Commission recommended that TFES payments should continue to be based on the assessed cost disadvantage of individual shipments, but should only be payable on the basis of evidence of actual wharf-to-wharf costs.
 - Parameter adjustments for land components should no longer apply. The administration and auditing of the TFES should focus more intensively on the verification of wharf-to-wharf costs, and transparency should be increased.
 - If there is continued evidence of gaming and overcompensation of freight cost disadvantage, a flat rate of assistance should be introduced from July 2010.
 - Payment of a single flat rate of subsidy per TEU shipped would have significant advantages in overcoming incentive problems and reducing administrative and compliance costs.
 - However, as it would significantly change the current distribution of assistance payments, and possibly involve short-term adjustment assistance, the Commission did not propose such a subsidy at this stage.
 - The TWFS should pay the same level of assistance per tonne to wheat shipped in containers and in bulk. The level of assistance should be based on the disadvantage of the least cost method of shipping wheat across Bass Strait, plus intermodal costs, less a rail freight equivalent cost. Wheat should no longer be eligible for assistance under the TFES.

Government decision

On 21 June 2007 the Government announced that it agreed with the findings of the Commission's final report and would implement its substantive recommendations (Lloyd 2007). In particular, the Government would ensure that the TFES and TWFS would more strongly focus on addressing sea freight cost disadvantage and outlined reforms consistent with the Commission's recommendations to:

- restructure the basis for claiming TFES to minimise adverse incentives in the current scheme
- ensure TFES assistance would be payable on the basis of evidence of actual wharf-to-wharf costs
- revise the methodology for setting and updating the parameters used to calculate TFES assistance
- enhance the administration, auditing and public reporting of the TFES
- monitor the operation of the revised Scheme

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- expand the TWFS to include all bulk and containerised unprocessed wheat, all eligible shipments to be paid at the same rate and not be subject to the current cap on TWFS payments and wheat no longer be eligible for assistance under the TFES.

Review of price regulation of airport services

Inquiry Report No 40 signed 14 December 2006, report released 27 April 2007.

The Commission's main findings and recommendations were as follows:

- Price monitoring, as part of a light-handed regulatory approach, has delivered some important benefits.
 - It has been easier to undertake the investment necessary to sustain and enhance airport services in the face of growing demand for air travel.
 - Airports' productivity performance has been high by international standards, and service quality has been satisfactory to good.
- Moreover, though it is too early to fully judge the effectiveness of the light-handed approach in constraining airport charges, price outcomes to date do not appear to have been excessive.
- However, some non-price outcomes have been less satisfactory and commercial relationships between certain airports and their customers have been strained.
- More generally, some of the 'market' constraints on airports' behaviour — such as the countervailing power of airlines — have not been as strong as was envisaged. Also, some 'systemic' shortcomings have detracted from the effectiveness of price monitoring and the light-handed approach as a whole.
 - Policy guidance on the valuation of airport assets for pricing purposes is lacking.
 - There is no clarity on when further investigation of an airport's conduct is required, and no process for initiating such investigation.
- These systemic shortcomings can be addressed without sacrificing the benefits of a light-handed approach. Hence, a further period of price monitoring would be preferable to a reversion to stricter price controls, with all of its attendant costs.
- However, a recent Federal Court decision that potentially makes the Part IIIA national access regime a more intrusive regulatory instrument, has raised questions about the sustainability of the light handed approach for airports and poses risks for investment in infrastructure more generally. A 'remedial' legislative amendment to Part IIIA should be considered.

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- Provided that Part IIIA does not come to ‘supplant’ the light-handed approach, price monitoring should be extended for a further six years when the current arrangements end in 2007. This new monitoring regime should:
 - apply to Adelaide, Brisbane, Melbourne, Perth and Sydney Airports
 - embody a new process for triggering further investigation of an airport’s conduct where there is prima facie evidence of significant misuse of market power
 - exclude revaluations to airports’ monitored asset bases made after 30 June 2005.
 - Though introduction of an airport-specific arbitration mechanism would be counterproductive, the parties should be expected to negotiate and resolve disputes within an appropriate commercial framework, and be assessed accordingly under the new oversighting arrangements.

Government decision

On 30 April 2007 the Government announced that it supported nearly all of the Commission’s recommendations on a new price monitoring regime for airport services through to 30 June 2013 (Costello 2007a). The Government:

- intends to amend Part IIIA of the Trade Practices Act, as recommended by the Commission, to restore the interpretation prevailing before the recent Federal Court decision upholding the declaration of the domestic airside services at Sydney Airport
- accepted Commission proposals to address systemic shortcomings in the current regime including through establishing a credible threat of re-regulation by incorporating a ‘show cause’ mechanism, strengthening the Government’s Aeronautical Pricing Principles, setting a starting aeronautical asset base at each of the monitored airports as at 30 June 2005, widening the coverage of monitoring largely as recommended by the Commission (but car parking prices at the major airports are to be monitored separately from the aeronautical price monitoring regime)
- in accordance with the Commission’s recommendations, the new price monitoring regime is to apply to Adelaide, Melbourne, Perth and Sydney Airports, and from 1 July 2007, Canberra and Darwin Airports would no longer subject to formal price monitoring
- accepted the Commission’s recommendation that an independent review of the new regime be carried out in 2012.

Standard setting and laboratory accreditation

Research Report completed 2 November 2006, report released 16 November 2006.

The Commission's main findings and recommendations were that:

In general, Australia's standard setting and laboratory accreditation services are effective, but there is scope for improvement. The Australian Government should ensure both Standards Australia and the National Association of Testing Authorities (NATA) serve agreed public and national interest objectives by way of the Memoranda of Understanding, targeted funding, representation on governance bodies of both organisations and by recognising the special status of both bodies.

Standard setting

- Standards Australia should make the following improvements:
 - systematically consider costs and benefits before developing or revising a standard, and publish reasons for such decisions
 - ensure more balanced stakeholder representation
 - reduce barriers to volunteer and public participation
 - improve accessibility, transparency and timeliness, including an improved appeals and complaints mechanism.
- All government bodies should rigorously analyse impacts before making a standard mandatory by way of regulation and ensure it is the minimum necessary to achieve the policy objective. Each Australian Government agency should also provide the funding necessary to ensure free or low cost access to such standards, including Australian Standards.
- The Australian Government should continue to support Standards Australia's role in facilitating international standardisation activities.
- The Standards Accreditation Board should be renamed the Accreditation Board for Australian Standards to better reflect its role and should be recognised by the Australian Government.

Laboratory accreditation

- The Australian Government should continue to progress government-to-government mutual recognition of conformance assessment and NATA should continue to progress voluntary mutual recognition.

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- The Australian Government should continue to support NATA's international roles.
 - NATA's proficiency testing programs should not be funded by the Government unless there are net public benefits beyond those which the market would provide.
 - NATA's prime role with regard to proficiency testing should be to set what is required for accreditation and to accredit proficiency testing bodies.
 - Governments should only impose a mandatory requirement for NATA accreditation, if a comprehensive assessment demonstrates a net benefit to the community.

Public support for science and innovation

Research Report completed 9 March 2007, report released 27 March 2007.

The Commission's main findings were that:

- There are widespread and important economic, social and environmental benefits generated by Australia's \$6 billion public funding support of science and innovation.
 - On the basis of multiple strands of evidence, the benefits of public spending are likely to exceed the costs.
 - But, given a host of measurement and methodological issues, it is not possible to provide anything other than broad estimates of the overall return to government contributions.
- Major improvements are needed in some key institutional and program areas.
- The adequacy of existing program evaluation and governance arrangements is mixed, with some notable shortcomings in business programs.
- The net payoff from the R&D Tax Concession could be improved by allowing only small firms access to the 125 per cent concession, changing the thresholds for tax offsets, amending the base for the 175 per cent incremental concession and considering a narrower, more appropriate, definition of R&D. This should increase the amount of new R&D induced per dollar of revenue and achieve more spillovers.
- Strong public support of Rural R&D Corporations with a public good orientation is justified, but the level of government subsidies for some narrower, industry-focused arrangements is likely to crowd out private activity and produce weaker external benefits outside the supported rural industry. However, industry will need time to adjust to new arrangements.

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- Collaboration can generate significant benefits. The Cooperative Research Centre program is, however, only suited to longer term arrangements. There are complementary options for business collaboration with public sector research agencies and universities that could provide more nimble, less management-intensive, arrangements.
 - There are grounds for dealing with problems in the governance and intellectual property frameworks of universities, weaknesses in their commercial arms and shortcomings in proof-of-concept funding.
 - However, the pursuit of commercialisation for financial gain by universities, while important in its own right, should not be to the detriment of maximising the broader returns from the productive use of university research.
 - The structure of funding for higher education research has increasingly eroded the share of block grants. Further erosion would risk undermining their important role in enabling meaningful strategic choices at the institutional level.
 - The costs of implementing the Research Quality Framework may well exceed the benefits. The benefits from the 2008 RQF round could be improved if its funding scales provide more significant penalties for the poorest research performers than apparently currently envisaged. In the long run, a transition to less costly approaches, such as those that target poor performing areas, should be considered.

Government decision

The Government has not yet formally responded to the Commission's report.

Nevertheless, consistent with the Commission's finding that the beneficial ownership requirement for subsidiaries of foreign-owned firms should be relaxed, the Government's Industry Policy Statement of May 2007 announced that, from 1 July 2007, the restriction disqualifying businesses which hold their intellectual property overseas from the R&D tax concessions would be abolished for the 175 per cent premium concession (Howard and Macfarlane 2007).

As regards public sector research agencies, the Commission found that increasing reliance on external funding sources had the potential to limit CSIRO's strategic research capabilities. Accordingly, the current real level of public appropriation funding for CSIRO should not be reduced. In January 2007 the Government announced a new four-year funding arrangement for CSIRO equivalent to a 2 per cent nominal growth a year to 2010-11 (Bishop 2007). This is effectively a decline in real funding.

Performance benchmarking of Australian business regulation: stage 1

Research Report completed 19 February 2007, report released 6 March 2007.

The Commission's main findings and recommendations were that:

- While much business regulation is essential, it can involve unnecessary compliance costs. Such burdens are compounded for firms operating across Australia.
- Benchmarking compliance burdens could help identify where costs could be reduced, and complement other regulatory reform initiatives.
- Such benchmarking is technically feasible and could yield significant benefits. However, there are methodological complexities and uncertainties about data, requiring a careful, staged approach to implementation.
 - Benchmarking across jurisdictions would need to be confined to areas of regulation with comparable objectives and benefits, and rely mainly on indirect indicators that would not be definitive about performance gaps.
- Benchmarking compliance costs of key regulatory areas should include the costs of:
 - becoming and being a business, arising from one-off activities such as licensing and ongoing activities such as meeting OHS standards
 - the delays, uncertainties and compliance activities associated with obtaining government approvals in doing business
 - regulatory duplication and inconsistencies in doing business interstate.
- In addition, benchmarking the quality and quantity of regulation across jurisdictions and over time (including for specific business categories) would provide complementary insights into cumulative burdens and systemic problems.
- It would be desirable to follow a limited and targeted program over the first three years, that would allow 'learning by doing'.
 - The first year would focus on benchmarking the quantity and quality of regulation, as well as compliance costs for a single area of regulation, and developing data sets for other areas. Progressively more regulation would be benchmarked in subsequent years.
- Based on the likely significance of compliance burdens and other criteria, suggested priorities for inclusion in the initial three year program are OHS; land development assessments; environmental approvals; stamp duty and payroll tax; business registration; financial services regulation; and food safety.

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- Data for many indicators is obtainable from published sources and governments, but face-to-face surveys of individual businesses would also be needed.
 - Survey costs, including for business, can be reduced by targeting ‘reference businesses’ with appropriate attributes.
 - The cooperation and support of governments and business — in advising on indicators and supplying comparable data — would be crucial to the success of any regulatory benchmarking program. Advisory panels would facilitate necessary interaction.

Government decision

Consistent with Commission’s report and COAG’s decision of 13 April 2007 to proceed to the second stage of benchmarking the compliance costs of regulation, on 3 September 2007 the Treasurer requested the Commission to commence stage two of the study extending over the next three years. Stage two of the study is to examine the regulatory compliance costs associated with becoming and being a business, the delays and uncertainties of gaining approvals in doing business, and the regulatory duplication and inconsistencies in doing business interstate. The Commission is to focus initially on the quantity and quality of regulation, and benchmarking the administrative compliance costs for business registrations (see page 169 for details).

Government responses to reports from previous years

Review of the Australian consumer product safety system

Research Report completed 16 January 2006, report released 7 February 2006.

The Commission found that a strong case existed for national uniformity in the regulation of consumer safety and its preferred model was to have one national law (the Trade Practices Act) and a single regulator (the Australian Competition and Consumer Commission). If this is not achievable, jurisdictions should harmonise core legislative provisions, including a changed requirement that permanent bans and mandatory standards should only be adopted on a national basis.

The COAG Communiqué of 14 July 2006 noted the Commission’s findings and COAG requested the Ministerial Council on Consumer Affairs (MCCA) to develop options for a national system for product safety regulation, without increasing the

regulatory burden, and to report back with a recommended approach by the end of 2006.

As part of its Regulatory Reform Plan announced on 13 April 2007, COAG stated that the States and Territories had agreed to develop a *uniform* approach to product safety within 12 months.

Subsequently, the Joint Communiqué of the MCCA Meeting on 18 May 2007 announced agreement to a *harmonised* model in the following terms:

- a draft regulation impact statement be completed, incorporating the effects of the COAG decision, comparing the harmonised model with the status quo and be released by 30 June 2007
- the States and Territories in consultation with the Commonwealth agree on the principles of the new regime and report to MCCA later in 2007
- concurrently, an intergovernmental agreement underpinning the legislation be negotiated and agreed
- drafting instructions be agreed in time to report to COAG in April 2008
- immediate commencement of a review of all existing product safety bans and standards with the aim of achieving greater harmonisation across the Commonwealth, States and Territories.

D Competitive neutrality complaints

The Productivity Commission Act and the Government's 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 Australian Government Competitive Neutrality Complaints Office (AGCNCO) received one formal complaint in 2006-07. Details of the action taken in relation to this complaint are summarised in this appendix.

Complaints received in 2006-07

Real Estate Institute of Australia

In May 2007 the AGCNCO received a competitive neutrality complaint from the Real Estate Institute of Australia (REIA) regarding Defence Housing Australia's (DHA) exemptions from licensing requirements for the provision of property sales and management services.

The REIA alleged that DHA acts as a real estate agent in the sale of its properties and the lease back arrangements it has with private investors and, as such, licensing exemptions for DHA staff involved in the conduct of real estate business are 'anti-competitive, providing a more favourable business environment for DHA than for private sector real estate business'. In particular, the REIA considered that the advantage afforded to DHA as a result of government ownership was a result of:

- DHA being exempt from having to employ licensed real estate agents and from subsequent continued professional development which is mandated in some jurisdictions
- DHA not being required to maintain a registered office
- DHA being exempt from prudential requirements in its property management capacity — it does not need to maintain trust accounts for bonds paid by customers or pay insurances such as professional indemnity and fidelity insurance.

After an initial investigation, which included meetings with both REIA and DHA, the AGCNCO decided to proceed to a formal investigation. DHA subsequently provided the AGCNCO with a written response to the REIA's complaint, as well as formal legal advice from the Australian Government Solicitor on the application of State and Territory real estate legislation to DHA. This investigation has been carried over to 2007-08.

E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Commission Research Papers, and Submissions, and Staff Working Papers released in the year. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2006-07, as well as briefings to international visitors.

Commission research papers

Potential benefits of the National Reform Agenda

February 2007

As part of its supporting research program, the Commission investigated the potential economic and fiscal impacts of the National Reform Agenda (NRA) as outlined in the COAG meeting Communiqué of 10 February 2006. The main purpose of the study was to help governments better understand the scale and distribution — including the State and Territory dimensions — of the anticipated broad economic and fiscal impacts of reform. (The study guidelines provided to the Commission by COAG Senior Officials excluded matters relating to climate change technology and adaptation.) The key points of the study were:

- The study assessed the potential maximum (outer-envelope) gains that could be achieved through COAG's NRA in the long run — assuming *full implementation* of the NRA, and *full adjustment* of the economy to the effects of reform.
- There was limited information on which to base such estimates and the results should be viewed as exploratory or, at best, broadly indicative.
- Because of inherent differences between the competition and regulatory reform streams and the human capital reform stream, it was not possible to aggregate results into a single measure of the 'impact of the NRA'.

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- That said, the NRA as a whole could be expected to significantly raise activity levels and incomes in all jurisdictions. The benefits would be additional to benefits from ‘ongoing’ reform programs.
 - Improving productivity and efficiency in *energy, transport, infrastructure* and other activities through the competition and regulatory reform streams could provide resource savings of around \$10 billion.
 - After a period of adjustment, GDP could be increased by nearly 2 per cent.
 - Governments’ combined net revenues could rise by up to around \$5 billion, with the distribution between governments varying across reform areas.
 - Achievement of a 5 per cent improvement in the productivity of *health service delivery* could equate to resource savings (or additional resources to spend on health care) of around \$3 billion.
 - After a period of adjustment, this would imply a potential increase of nearly \$4 billion in net revenues of Australian governments after 10 or more years.
 - Enhancement of *workforce participation and productivity* through the NRA stream directed at health promotion and disease prevention, education and work incentives could potentially result in increases in GDP of around 6 and 3 per cent, respectively, after 25 or more years.
 - However, the magnitude of prospective net gains in GDP, and in governments’ fiscal balances, would depend on the magnitude of costs incurred by governments in implementing specific reform programs.

Submissions

Productivity Commission Submission to the Prime Ministerial Task Group on Emissions Trading

March 2007

The Prime Ministerial Task Group on Emissions Trading was established in December 2006 and asked to report by 31 May 2007. Under the proviso that the competitive advantages Australia enjoys through its reserves of fossil fuels and uranium be preserved, the Task Group was to assess how Australia can contribute to reducing greenhouse gas emissions and, in particular, to advise on:

- the nature and design of a workable global emissions trading system in which Australia would be able to participate

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- additional steps that might be taken, in Australia, consistent with the goal of establishing such a system.

In the limited time available, the Commission confined its contribution to outlining relevant frameworks and principles. Key points from its submission were:

- There is a growing consensus that the anthropogenic contribution to climate change could pose serious risks to future generations and that coordinated action is needed to manage these risks. However, uncertainty continues to pervade the science and geopolitics and, notwithstanding the Stern Review, the economics. This is leading to divergent views about when and how much abatement effort should be undertaken.
- To be fully efficient and effective, greenhouse gas abatement must occur globally. Effectiveness increases with the coverage of emissions and of emitting countries. Below a certain threshold, any abatement action will have little effect.
- It is in Australia's interest to participate in the design of a multilateral framework — for example, pressing for:
 - emission caps for all major emitting countries that are supported by strong verification arrangements, and can react flexibly to new information
 - allowance to gain credits for emission reduction projects in other countries and also flexibility in rules on land cover change.
- Independent action by Australia to substantially reduce greenhouse gas emissions, in itself, would deliver barely discernible climate benefits, but could be nationally very costly.
- Such action would therefore need to rest on other rationales.
 - Facilitating transition to an impending lower emissions economy is the strongest rationale for independent action, but it is contingent on the imminent emergence of an extensive international response.
- Current climate change policy in Australia is a disjointed, fragmented patchwork of measures across sectors and jurisdictions. The potential impact on resource allocation (for example, firm location) underscores the need for a national approach.
- A national approach should be based on greenhouse gas pricing — through an emissions tax or an emissions trading scheme. Due to its administrative simplicity, a tax has some merit as a transitional tool and could be introduced in a revenue neutral way.
- If it were decided to introduce a national emissions trading scheme:

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- to constrain costs, the emissions price should be kept modest via a ‘safety valve’ until a multilateral regime that comprised major emitting countries was in place
 - to limit adjustment costs and international relocation of production, it may be appropriate to mitigate the most adverse competitive impacts on energy-intensive producers until an international regime is in place
 - existing regulations that substitute for emissions trading should be discontinued.
 - Other policies may be warranted to address related market failures. These include support for relevant technological development and deployment, addressing barriers to energy efficiency and carbon capture and storage, and research into adaptation strategies. To optimise use of the community’s abatement dollar, all policy proposals should be subject to comparative assessment — such as cost per tonne of greenhouse gas emissions reduction or storage.

Joint ABS/Productivity Commission report

Characteristics of Australia’s irrigated farms, 2000-01 to 2003-04

ABS Cat. no. 4623.0, September 2006

To maximise the usefulness to the Australian community of ABS data collections on water use on Australian farms, the Australian Statistician seconded four employees of the Productivity Commission to assist with further analysis of the data. The collaborative arrangement between the ABS and the Commission was the first of its type between the two organisations.

The report examined the diversity of farm irrigation practices and management — providing a detailed statistical description of farms which use and trade irrigation water and provides estimates of the contribution of selected irrigated activities to the gross value of Australia’s agricultural production. It is intended that the statistical and other descriptive information will support wider analyses to identify farm management and resource use practices that contribute to the productivity and efficiency of irrigation water use. The key points of the report were:

- In 2003-04, 2.4 million hectares of agricultural land and 10 000 gegalitres of water were used for irrigated agricultural activities.

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- This constituted only 0.5 per cent of all agricultural land, but accounted for about 70 per cent of Australia’s annual use of extracted water by rural, industry and domestic users.
 - The gross value of irrigated production (GVIP) in Australia is estimated to have been around \$9 billion in 2003-04 — around one-quarter of the gross value of all agricultural production.
 - 52 per cent of Australia’s GVIP came from irrigated horticulture, with irrigated pastures and irrigated broadacre crops each contributing around 24 per cent.
 - Of the 130 500 agricultural establishments that operated in 2003-04, 40 400 irrigated.
 - Farms that irrigated generated, on average, 55 per cent more output per farm in 2003-04 than farms which did not irrigate — although the average land area of irrigated farms was less than that of non-irrigated farms.
 - Within irrigated agriculture, the largest 20 per cent of farms generated the majority of the GVIP. Of the output of irrigated pasture, irrigated broadacre and irrigated horticulture farms, 57, 69 and 73 per cent, respectively, was generated by the largest farms in each activity group.
 - Larger irrigated farms were generally more likely than smaller farms to irrigate in successive years. Larger farms also incurred lower ongoing irrigation expenses relative to their irrigation water use and were more likely to recycle irrigation water and use irrigation scheduling equipment.
 - Farms of all sizes engaged in trade of irrigation water, but trade has not been a frequent event for most farms. Farms with pastures as the main irrigated activity were the most active in water trade.
 - 43 per cent of irrigated pasture farms, 36 per cent of irrigated broadacre farms and 27 per cent of irrigated horticultural establishments traded water in at least one of the three years to 2003-04.
 - Only 13 per cent of irrigated pasture farms, 11 per cent of irrigated broadacre farms and 10 per cent of irrigated horticultural establishments traded water in every year.
 - Most trade in irrigation water was on a temporary basis.
 - In 2002-03, horticultural establishments (particularly farms with irrigated vegetables) were the main sellers, while farms with irrigated pastures and irrigated broadacre activities were the main buyers.

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- For trade on a permanent basis, fruit growing establishments were the main sellers of irrigation water entitlements in 2002-03, while farms with pastures, cotton or sugar were the main buyers.

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.

Workforce participation rates — how does Australia compare?

Joanna Abhayaratna & Ralph Lattimore, December 2006

The interest in workforce participation has been heightened in recent years by concerns about the ageing of Australia's population and the associated shift in the age structure of the population towards older age groups with lower participation rates. COAG's National Reform Agenda highlights the need for more non-working Australians to 'realise their potential by entering or rejoining the workforce'.

International comparisons — showing that Australia's overall participation rate falls well short of some OECD countries — are often used as a benchmark to highlight the scope for Australia to lift its participation rate. These comparisons, however, are impeded by significant differences in the statistical practices used across the OECD to report workforce participation rates.

The paper identified several areas where statistical discrepancies exist: seasonality in labour force data; defence personnel; institutionalised populations; missing data for some age brackets; paid maternity leave; definitions of unemployment; and temporary residents. After adjusting for the effects of four of these areas — defence personnel, institutionalised populations, missing data for some age brackets and paid maternity leave — Australia's overall position increases from 10th to 5th place in 2005.

However, Australia has significantly lower rankings in the participation rates for three distinct labour market segments — men aged 25–54 years, women aged 25–44 years and people nearing retirement. This implies scope to lift Australia's participation rates and economic growth.

Men not at work: an analysis of men outside the labour force

Ralph Lattimore, January 2007

Of the 8 million Australian males in the adult male civilian population in 2005-06, at any one time more than 2.2 million or nearly 30 per cent were outside the labour force — neither working nor looking for work. This Staff Working Paper provided information on these men, where they live, why they are outside the labour force and the impacts of their economic inactivity.

The paper found that, in contrast to women, the rates at which men are disengaged from the labour force have increased four fold over the last century, rising particularly rapidly over the last 50 years.

The paper found that there are many drivers of this transformation in Australian labour markets.

- Some of it is due to population ageing, which swells the ranks of retirees. (But the impacts of ageing will be greater in the future than they have been in the past.)
- Younger men are spending longer in education and older men are enjoying a longer voluntary retirement.
- Men generally are now much more involved in domestic and child care tasks — that explains 30 per cent of those aged 35–44 years old absent from the labour market.

The view that many of the ‘inactive’ are at work in the ‘shadow economy’ was found to be a myth.

Many prime aged males leave the labour market due to injury, ill-health, disability or premature ‘retirement’, with about half the men aged 25–64 years who are outside the labour force in receipt of the Disability Support Pension. An important explanation for the lower labour force participation rates of these men is the shift away from unskilled manual work in an increasingly service-sector and skill-based economy.

Inactive men are more likely to be living alone, to be poorly educated, and of Indigenous or non-English speaking migrant background. For example, a man aged 45–54 years living alone is about four times more likely to be outside the labour force than one who is married or who has a partner.

Can Australia match US productivity performance?

Ben Dolman, Dean Parham & Simon Zheng, March 2007

This paper explored Australia's potential for future productivity growth against the performance benchmarks of other high-income OECD economies. For this purpose, the United States was taken to be the world's productivity leader in an aggregate 'technological' sense. Some European countries now have higher levels of productivity, but that reflects industry mix (oil production) and policy and institutional distortions in labour markets (which have not brought overall gain in average living standards).

Australia's catch up toward the US aggregate level of productivity since the 1950s has been generally weak. One positive (albeit transient) movement came in the 1970s, but it was associated with the US productivity growth slowdown and some unsustainable influences in Australia. Another sharp rise came in the 1990s, when Australian productivity growth accelerated sooner and faster than in the United States. But a sizeable gap between Australian and US productivity levels remains.

The paper's main conclusion was that the aggregate level of US productivity should not be regarded as a realistic target for Australia to achieve. Comparisons of productivity performance are more meaningfully made at an industry level. Although industry data are of poorer quality, it appears that some Australian industry sectors have performed at the productivity frontier and have participated in frontier shifts along with US industries. Large gaps remain in other areas: manufacturing, wholesale trade, retail trade, utilities (electricity, gas and water), communications and finance.

These comparisons suggest that Australia's relative performance is constrained by differences in industry presence and composition and in access to gains from specialisation and scale. Underpinning these differences are fundamental factors of history and geography, including Australia's remoteness from large markets and its pattern of settlement.

Australia may not be able to match US productivity levels in aggregate. However, an industry-by-industry assessment suggests that Australia is well placed to at least maintain its overall position relative to US productivity, even with resurgent US productivity growth. It also seems feasible for Australia to go further and to catch up some distance on US productivity levels, though this will not necessarily come automatically and further policy and institutional change may be needed.

Effects of health and education on labour force participation

Patrick Laplagne, Maurice Glover & Anthony Shomos, May 2007

This paper provided new estimates of the effects, on the probability of participation in the labour force, of changes in the prevalence of health conditions or changes in educational attainment levels.

The research confirmed that better health and education can result in substantially greater labour force participation for those affected:

- Of the six health conditions identified, a mental health or nervous condition, when averted, has the largest positive impact on labour force participation.
- Having a degree or higher qualification has the largest impact on labour force participation, relative to not completing Year 12.

Measurement of these effects is complicated by possible endogeneity bias due to:

- unobserved characteristics of individuals — for example, motivation, innate ability or preferences — which may influence health and education as well as the decision to engage in paid work
- the simultaneous determination of health and labour force participation.

The results suggest that unobserved characteristics affect decisions to participate in the labour force and health and labour force participation influence each other simultaneously.

This paper formed part of a research project investigating in more detail parameters used in the Commission's Research Paper *Potential Benefits of the National Reform Agenda* (see above). The new parameter estimates:

- altered some of the labour market projections contained in that report, but do not affect the thrust of the conclusions
- provide an improved basis for cost-benefit analyses of possible changes in specific health or education policies.

Table E.1 **Speeches and presentations by the Chairman, Commissioners and staff, 2006-07**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Centre for Independent Studies Consilium, Coolum	Explaining the housing market puzzle	Aug 2006
26 th Conference of the International Association of Agricultural Economists, Gold Coast	Reducing rural red tape	Aug 2006
International Quality and Productivity Centre Conference, Brisbane	Promoting efficiency in road and rail freight infrastructure	Sept 2006
CRA International Seminar, Canberra	Road and rail pricing: some early observations ... and more questions	Sept 2006
Australian Transport Council meeting, Canberra	Promoting efficiency in road and rail freight infrastructure: ways forward?	Oct 2006
Conference on Australian Regulatory Reform Evolution, Canberra	Tackling the underlying causes of over-regulation – an update	Oct 2006
Rethinking Regulation Forum, Melbourne	The Regulation Taskforce's report and its aftermath	Nov 2006
Australian Public Service Commission SES Breakfast Seminar, Canberra	Rethinking Regulation: following through	Nov 2006
Melbourne Institute/The Australian 4 th Economic and Social Outlook Conference, Melbourne	Regulation for Australia's federation in the 21 st Century	Nov 2006
Conference on Latin America and the Asia Pacific: Opportunities and Pending Tasks, Santiago, Chile	Australia's reform experience and the role of the Productivity Commission	Nov 2006
Standing Committee of Officials of Consumer Affairs briefing, Melbourne (with Robert Fitzgerald)	Consumer policy framework	Dec 2006
Telstra Public Policy and Communications Presentation, Melbourne	Rethinking regulation and telecommunications	Feb 2007
CEO Forum Group, Melbourne	Regulatory reform in Australia: the next phase	March 2007
EABER Conference on Economic Reform and Regional Cooperation in East Asia, Beijing	Structural reform in Australia and the role of 'the Commission'	March 2007
Seminar on the Modernisation of the State and Public Policy – the Australian Experience, Santiago	Public policy reviews and reform: Australia's experience	April 2007
L21 Public Sector Leadership Conference, Sydney	Great expectations: management (and other) lessons from the Regulation Taskforce	May 2007

IPAA/Academy of Social Sciences Roundtable, Canberra	Federalism and reform	May 2007
OECD seminar, Paris	Regulatory reform in Australia: the next phase	June 2007
OECD 2nd World Forum on Statistics, Knowledge, and Policy: Measuring and Fostering the Progress of Societies, Istanbul, Turkey	Overcoming Indigenous disadvantage in Australia	June 2007
Commissioners:		
Canberra Evaluation Forum, Canberra (Robert Fitzgerald)	Evaluation of Indigenous programs	July 2006
NSW Treasury Economic Panel, Sydney (Mike Woods)	Ageing	July 2006
Policy Roundtable on Wellbeing, Canberra (Mike Woods)	Wellbeing and social capital	Aug 2006
Waste Management Association of Australia, Melbourne, (Philip Weickhardt)	Draft report on waste management	Aug 2006
Waste Management Association of Australia, Sydney, (Philip Weickhardt)	Draft report on waste management	Aug 2006
INORMS Congress on the Internationalisation of Research, Brisbane (Mike Woods)	Innovation policy	Aug 2006
Australian Water Association, Dry Areas Forum, Canberra (Neil Byron)	Opening trade in water rights — rural, urban & environment	Sept 2006
Joint ABARE/AARES Seminar, Canberra (Neil Byron)	Rural water use: rights, markets, efficiency & externalities	Sept 2006
Australian Medical Students' Association Leadership Seminar, Canberra (Mike Woods)	Health workforce	Sept 2006
National Conference of the Aged and Community Services Association, Gold Coast (Mike Woods with Rosalie McLachlan)	Aged care	Sept 2006
Australia New Zealand Regional Science Association 2006 Annual Conference, Beechworth (Neil Byron)	Conservation of Australia's historic heritage places: investing in regional assets	Sept 2006
Victorian Healthcare Association Annual Conference, Melbourne (Robert Fitzgerald)	Australia's health workforce: solving the problem	Oct 2006
Master Builders Association Annual Dinner, Canberra (Steven Kates)	Money and markets	Oct 2006
Melbourne Institute/The Australian 4 th Economic and Social Outlook Conference, Melbourne (Neil Byron)	Water reform, property rights & hydrological realities	Nov 2006

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Ausbiotech National Conference, Sydney (Steven Kates)	Draft report on public support for science and innovation	Nov 2006
Queensland Nanotechnology Alliance, Brisbane (Steven Kates)	Draft report on public support for science and innovation	Nov 2006
Office of Spatial Data Management Conference, Canberra (Robert Fitzgerald)	Standard setting and laboratory accreditation – issues and challenges in the Australian context	Nov 2006
Innovation Leadership Summit, Melbourne (Mike Woods)	Draft report on science and innovation	Dec 2006
5 th International Rural Nursing Congress, Albury (Mike Woods)	Health workforce reform	March 2007
Legal Research Foundation Conference, Wellington, NZ (Mike Woods)	Competition law harmonisation	March 2007
CEDA Australia's Future: Innovation in the 21 st Century, Sydney (Mike Woods)	Final report on public support for science and innovation	March 2007
General Practice Registrars Australia Workforce Forum, Canberra (Mike Woods)	Health workforce reform	March 2007
AFR Higher Education Summit, Melbourne (Mike Woods)	Final report on public support for science and innovation	April 2007
APPEA Conference, Adelaide (Mike Woods)	Annual Review of Regulatory Burdens on Business	April 2007
Centre for Credit and Consumer Law Network meeting, Brisbane (Robert Fitzgerald)	Consumer policy review	May 2007
Australian APEC Study Centre training program, Melbourne (Judith Sloan)	Productivity: labour market	May 2007
Staff:		
National Transport Commission Seminar, Canberra (Jonathan Pincus)	Productive reform in a federal system	July 2006
Dusseldorp Skills Forum Workshop on Successful Youth Transitions, Melbourne (Helen Mignot)	COAG Review of Government Service Provision	Aug 2006
Commonwealth–State Forum on Economic Framework Issues, Canberra (Dean Parham & Ben Dolman)	Frontier shifts and catch-up as influences on Australia's productivity outlook	Aug 2006
IPAA National Conference, Alice Springs (Lawrence McDonald)	Size, distance and the Report on Government Services: the treatment of scale and remoteness in ROGS	Sept 2006

Conference on recruitment and retention for government, Canberra (Pat Heagerty)	Remaining competitive in a tight employee market: speeding up recruitment processes	Sept 2006
Conference on implementing robust performance improvement framework for government service delivery, Canberra (Lawrence McDonald)	Measuring and improving service delivery at a whole-of-government level	Sept 2006
OECD Workshop on Productivity Measurement and Analysis, Bern, Switzerland (Dean Parham)	Empirical analysis of the effects of R&D on productivity: implications for productivity measurement?	Oct 2006
IIR Conference on Water Pricing 2006, Sydney (Gavan Dwyer)	Rural water use and the environment: the role of market mechanisms	Oct 2006
35 th Australian Conference of Economists, Perth (John Salerian)	Economic impacts of skilled migration	Oct 2006
35 th Australian Conference of Economists, Perth (Graeme Cuxon)	Economic effects of an increase in the skilled migration program	Oct 2006
Multimedia Victoria Seminar, Melbourne (Dean Parham)	ICT use, productivity and prosperity	Oct 2006
Australian APEC Study Centre training program, Melbourne (Michael Kirby)	Role and functions of the Productivity Commission	Oct 2006
Philippine Economics Society 44 th Annual Meeting, Manila (Bernard Wonder)	Regulation, institutions and governance – some recent Australian experience	Nov 2006
Philippine Institute of Development Studies /ANU Conference on Micro-Economic Foundations of Economic Performance in East Asia, Manila (Bernard Wonder)	Policy determinants of productivity growth in Australia	Nov 2006
APEC Economic Seminar on Priorities in Structural Reform, Canberra (Bernard Wonder)	Economic performance, policy reform and institutional arrangements – some Australian experiences	Jan 2007
Australian Agricultural and Resource Economics Society 51 st Annual Conference, Queenstown, NZ (Paul Gretton)	The responsiveness of Australian farm performance to changes in irrigation water use and trade	Feb 2007
24 th Meeting of APEC Small & Medium Enterprises Working Group, Hobart (Su McCluskey)	Reducing red tape	March 2007
Coordination Committee for Science and Technology Evaluation Workshop, Canberra (Ralph Lattimore)	Evaluation challenges for public support of science and innovation	March 2007
Business Coalition for Tax Reform Meeting, Melbourne (Su McCluskey)	New regulatory framework	March 2007

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Conference on Government Service Delivery, Canberra (Lawrence McDonald)	Measuring whole-of-government performance for better outcomes management	March 2007
ATO Policy Government & Liaison Team Conference, Canberra (Su McCluskey)	New regulatory framework	March 2007
Centre for Corporate Public Affairs Politics and Public Policy Review 2007, Canberra (Bernard Wonder)	The microeconomic reform agenda and the Productivity Commission	March 2007
Insurance Council of Australia Regulatory Affairs Seminar, Sydney (Su McCluskey)	Are governments responding to the high regulatory cost burden?	April 2007
ACT Treasury, Canberra (Su McCluskey)	Overview of new regulatory requirements	April 2007
Australia and New Zealand School of Government, Canberra (Su McCluskey)	Better practice in developing policy: business regulation at the Commonwealth level	April 2007
Economic Society of Australia (NSW Branch) Seminar, Sydney (Dean Parham)	Can Australia match US productivity performance?	May 2007
Australian APEC Study Centre training program, Melbourne (Stephen Rimmer)	Structural reform, productivity enhancement and good regulatory systems	May 2007
Australian APEC Study Centre training program, Melbourne (Dean Parham)	Productivity: definition, measurement, reasons for importance Productivity: determinants and influences	May 2007
Korea Institute for International Economic Policy Conference on Micro Foundations of East Asia Economic Integration, Seoul (Michael Kirby)	Institutional foundations and economic reform: an Australian perspective	May 2007
Treasury Seminar, Canberra (Ralph Lattimore)	Public support for science and innovation in Australia	May 2007
Treasury Seminar, Canberra (Lawrence McDonald)	Overcoming Indigenous disadvantage	June 2007
Council of Humanities, Arts and Social Science, Canberra (Ralph Lattimore)	Public support for science and innovation	June 2007
12 th Dynamics, Economic Growth and International Trade Conference, Melbourne (Ben Dolman)	Patterns of migration, trade and foreign direct investment across OECD countries	June 2007

Table E.2 International delegations and visitors, 2006-07

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Prof Andre Sapir (European Union)	The Commission's role and functions	Jul 06 (C)
Delegation from China's Ministry of Finance	The Commission's role, functions and work program	Jul 06 (M)
Dr Mari Pangestu, Indonesian Minister of Trade	Trade policy	Aug 06 (M)
Beijing Bureau of Finance	Financial management reform	Aug 06 (C)
WTO Delegation	Trade policy	Aug 06 (M)
Delegations from China's Central Party School	Structural reforms and issues related to government trading enterprises	Sep 06 (C)
Delegation from Indonesia	Regulation impact assessment processes	Oct 06 (C)
UK Treasury Productivity Team	Australian higher education policy	Oct 06 (M/C)
Policy Research Institute, Japanese Ministry of Agriculture, Forestry and Fisheries	Regulation impact assessment issues	Oct 06 (C)
Delegation from Kazakhstan	Service delivery performance in health and education	Oct 06 (C)
Delegation from the China's Legislative Affairs Office	Regulation review and assessment	Nov 06 (C)
Delegation from China's Development Research Centre	Policy processes in Australia	Nov 06 (C)
French Embassy	The Australian Government's new regulatory framework	Nov 06 (C)
Budgetary Affairs Commission of the Standing Committee of the National People's Congress of China	Longer term fiscal impact of social security	Nov 06 (C)
National Development and Reform Commission of China	The Commission's role and functions	Nov 06 (M)
National Economic and Social Advisory Council of Thailand	The Commission's role and functions	Nov 06 (C)
Iranian Ministry of Health	Australian health workforce reforms	Dec 06 (C)
NZ Ministry of Foreign Affairs and Trade	The Commission's research activities, productivity gains from trade and modelling of services trade liberalisation	Dec 06 (C)
Singaporean Ministry of Trade and Industry	Australia's productivity and innovation experience at the sectoral level	Jan 07 (C)
China Australian Governance Program Delegation	Delivery of Australian public services at the Commonwealth, State and local government levels	Feb 07 (M)

(continued next page)

Table E.2 (continued)

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
China Australian Governance Program Delegation	Delivery of Australian public services at the Commonwealth, State and local government levels	Feb 07 (M)
Visitors from the universities of Tokyo and Tsukuba	Health regulation impact assessment	Feb 07 (C)
Chilean delegation	The Commission's role and activities and regulatory reform	Feb 07 (C)
Fact Finding Mission from Botswana	The Commission's role and activities	Mar 07 (C)
Chilean Economic Development Agency	The Commission's role and activities	Mar 07 (C)
Director of the OECD Directorate for Food, Agriculture and Fisheries	The Commission's role and activities	Mar 07 (C)
US Embassy officials	Staff Working Paper on US/Australian productivity	Mar 07 (C)
Vietnam Central Institute of Economic Management	Competition policy and regulatory reform	Mar 07 (C)
Delegation from the National Development and Reform Commission of China	The role, functions and activities of the Commission, its public hearing processes and national competition policy reforms	Apr 07 (C)
Delegation from the National Development and Reform Commission of China	Management of the Commission's supporting research program	Apr 07 (M)
New Zealand parliamentarians	The role and activities of the OBPR	May 07 (C)
New Zealand Institute	Policy issues	May 07 (C)
Thailand Development Research Institute and others	The Commission's role and activities	May 07 (C)
ASEAN Media Visitors	The Commission's role and activities	May 07 (C)
Mark Fagan (Harvard University Rail Research)	Rail regulation in Australia	May 07 (C/M)
IMF Article IV Team	Productivity, the National Reform Agenda and the Regulation Taskforce's Report	Jun 07 (C)

(C) Canberra (M) Melbourne

F Publications

This appendix provides a list of Commission inquiry and research reports and major speeches by the Chairman in 2006-07. It also lists conference proceedings, staff working papers and other papers, in which the views expressed do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all of its publications. The availability of printed copies is detailed on the website.

Government-commissioned projects

Inquiries and commissioned studies — draft reports

Draft reports can be obtained from the Commission during the course of an inquiry or study and from the Commission's website. The dates listed are release dates.

- *Standard Setting and Laboratory Accreditation*, Draft Research Report, 25 July 2006
- *Review of Price Regulation of Airport Services*, Draft Report, 7 September 2006
- *Tasmanian Freight Subsidy Arrangements*, Draft Report, 8 September 2006
- *Road and Rail Freight Infrastructure Pricing*, Discussion Draft, 27 September 2006
- *Public Support for Science and Innovation*, Draft Research Report, 2 November 2006
- *Performance Benchmarking of Australian Business Regulation*, Discussion Draft, 28 November 2006

Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/JS McMillan and the Commission's website. The dates listed are signing dates.

-
- *Rural Water Use and the Environment: The Role of Market Mechanisms*, Research Report, 11 August 2006
 - *Waste Management*, Inquiry Report, No. 38, 20 October 2006
 - *Standard Setting and Laboratory Accreditation*, Research Report, 2 November 2006
 - *Tasmanian Freight Subsidy Arrangements*, Inquiry Report, No. 39, 14 December 2006
 - *Review of Price Regulation of Airport Services*, Inquiry Report, No. 40, 14 December 2006
 - *Road and Rail Freight Infrastructure Pricing*, Inquiry Report, No. 41, 22 December 2006
 - *Public Support for Science and Innovation*, Research Report, 9 March 2007
 - *Performance Benchmarking of Australian Business Regulation*, Research Report, 19 February 2007

Performance reporting

Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent Pirion/JS McMillan and from the Commission's website. Publications produced in 2006-07 and many Secretariat reports from previous years are also available on compact disk.

- *Report on Government Services 2007*, Volume 1: Education, Justice, Emergency Management (January 2007)
- *Report on Government Services 2007*, Volume 2: Health, Community Services, Housing (January 2007)
- *Framework for Reporting on Indigenous Disadvantage*, Report on Consultations 2006 (March 2007)
- *Report on Government Services 2007: Indigenous Compendium* (April 2007)
- *Overcoming Indigenous Disadvantage: Key Indicators 2007 Report* (June 2007)
- *Overcoming Indigenous Disadvantage: Key Indicators 2007 Overview* (June 2007)

Other performance reporting

- *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* (July 2006)

Competitive neutrality complaints

No competitive neutrality complaint reports were published in 2006-07. Copies of previous investigations are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and Productivity Commission.

Supporting research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publications agent Pirion/JS McMillan, and from the Commission's website. Requests for printed copies of publications marked with an asterisk (*) should be directed to the Commission.

Annual Reports

- *Annual Report 2005-06* (October 2006)
- *Regulation and its Review 2005-06* (December 2006)
- *Trade & Assistance Review 2005-06* (April 2007)

Commission research papers

- *Potential Benefits of the National Reform Agenda* (February 2007)

Submissions

- *Productivity Commission Submission to the Prime Ministerial Task Group on Emissions Trading* (April 2007)

Chairman's speeches

Copies of the following speeches by Gary Banks are available from the Commission's website.

-
- *Explaining the housing market puzzle* (August 2006)
 - *Tackling the underlying causes of over-regulation: an update* (October 2006)
 - *Regulation for Australia's Federation in the 21st Century* (November 2006, published also)*
 - *Great Expectations: Management (and other) Lessons from the Regulation Taskforce* (May 2007)
 - *Overcoming Indigenous Disadvantage in Australia* (June 2007)

Richard Snape Lecture

The third Richard Snape Lecture was held on 30 November 2006. The lecture is available on the Commission's website and is also published.

- *The World Economy in the New Millennium: A New Golden Age?*, Deepak Lal (November 2006) *

Conference/workshop proceedings

No conference/workshop proceedings were published in 2006-07. Copies of previous proceedings are available from the Commission's publications agent Pirion/JS McMillan, and from the Commission's website.

Joint ABS/Productivity Commission report

- *Characteristics of Australia's irrigated farms, 2000-01 to 2003-04*, ABS cat. no. 4623.0 (September 2006, available from the ABS and on its website)

Staff working papers

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

- *Workforce Participation Rates — How Does Australia Compare?* (January 2007)
- *Men Not at Work: An Analysis of Men Outside the Labour Force* (January 2007)
- *Can Australia Match US Productivity Performance?* (March 2007)
- *Effects of Health and Education on Labour Force Participation* (May 2007)

Conference papers

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

- *Water reform, property rights and hydrological realities* (November 2006)
- *The responsiveness of Australian farm performance to changes in irrigation water use and trade* (February 2007)

Other publications

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

- *Supporting Research Program 2006* (November 2006)
- *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 33, June/July 2006, Issue 34, October 2006; Issue 35, January 2007 (including Publications in 2007 insert); Issue 36, April 2007)

G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2006-07. The statements have been prepared on an accrual accounting basis.

Contents

Independent audit report	212
Certification	214
Income statement	215
Balance sheet	216
Statement of changes in equity	217
Cash flow statement	218
Schedule of commitments	219
Notes to the financial statements	220



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Scope

I have audited the accompanying financial statements of the Productivity Commission for the year ended 30 June 2007, which comprise: a statement by the Chairman and Chief Finance Officer; income statement; balance sheet; statement of changes in equity; cash flow statement; schedule of commitments; a summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Chairman for the Financial Statements

The Productivity Commission's Chairman is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Productivity Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Productivity Commission's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Productivity Commission's Chairman, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Auditor's Opinion

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

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, and the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Productivity Commission's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office



Puspa Dash
Acting Executive Director

Delegate of the Auditor-General

Canberra

17 August 2007



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From the Chairman's Office

Statement by the Chairman and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2007 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Gary Banks
Chairman

16 August 2007

Brian Scammell
Chief Finance Officer

16 August 2007

Income Statement

for the period ended 30 June 2007

		2007	2006
	Notes	\$'000	\$'000
Income			
Revenue			
Revenue from Government	3A	32,251	28,449
Sale of goods and rendering of services	3B	<u>33</u>	<u>47</u>
Total revenue		<u>32,284</u>	<u>28,496</u>
Gains			
Sale of assets	3C	8	9
Other gains	3D	<u>168</u>	<u>38</u>
Total gains		<u>176</u>	<u>47</u>
Total Income		<u>32,460</u>	<u>28,543</u>
Expenses			
Employee benefits	4A	22,311	21,045
Suppliers	4B	6,177	6,173
Depreciation and amortisation	4C	585	626
Finance costs	4D	32	22
Write-down and impairment of assets	4E	<u>8</u>	<u>5</u>
Total Expenses		<u>29,113</u>	<u>27,871</u>
Surplus		<u>3,347</u>	<u>672</u>

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

Balance Sheet

as at 30 June 2007

		2007	2006
	Notes	\$'000	\$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	225	172
Trade and other receivables	5B	<u>11,930</u>	<u>7,580</u>
Total financial assets		<u>12,155</u>	<u>7,752</u>
Non-Financial Assets			
Land and buildings	6A	1,286	1,296
Infrastructure, plant and equipment	6B	1,125	624
Intangibles	6C	22	34
Other non-financial assets	6E	<u>310</u>	<u>337</u>
Total non-financial assets		<u>2,743</u>	<u>2,291</u>
Total Assets		<u>14,898</u>	<u>10,043</u>
LIABILITIES			
Payables			
Suppliers	7A	<u>434</u>	<u>147</u>
Total payables		<u>434</u>	<u>147</u>
Provisions			
Employee provisions	8A	7,495	7,363
Other provisions	8B	<u>573</u>	<u>722</u>
Total provisions		<u>8,068</u>	<u>8,085</u>
Total Liabilities		<u>8,502</u>	<u>8,232</u>
Net Assets		<u>6,396</u>	<u>1,811</u>
EQUITY			
Contributed equity		2,396	1,711
Reserves		1,725	1,172
Retained surplus (accumulated deficit)		<u>2,275</u>	<u>(1,072)</u>
Total Equity		<u>6,396</u>	<u>1,811</u>
Current Assets		12,465	8,089
Non-Current Assets		2,433	1,954
Current Liabilities		7,487	6,910
Non-Current Liabilities		1,015	1,322

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

Statement of Changes in Equity

as at 30 June 2007

Item	Accumulated results		Asset revaluation reserve		Contributed equity		Total equity	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance								
Balance carried forward from previous period	(1,072)	(1,744)	1,172	1,172	1,711	1,711	1,811	1,139
Adjustment for changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted Opening Balance	(1,072)	(1,744)	1,172	1,172	1,711	1,711	1,811	1,139
Income and Expense								
Revaluations recognised Directly in Equity (Plant & Equipment)	-	-	99	-	-	-	99	-
Revaluations recognised Directly in Equity (Leasehold Improvements)	-	-	454	-	-	-	454	-
Sub-total income and expenses recognised Directly in Equity	-	-	553	-	-	-	553	-
Surplus (Deficit) for the period	3,347	672	-	-	-	-	3,347	672
Total Income and Expense	3,347	672	553	-	-	-	3,900	672
Transactions with owners								
<i>Contributions by Owners</i>								
Appropriation (equity injection)	-	-	-	-	685	-	685	-
Sub-total transactions with owners	-	-	-	-	685	-	685	-
Closing Balance at 30 June	2,275	(1,072)	1,725	1,172	2,396	1,711	6,396	1,811

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

Cash Flow Statement

for the year ended 30 June 2007

		2007	2006
	Notes	\$'000	\$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		144	47
Appropriations		28,580	27,300
Net GST received from ATO		<u>735</u>	<u>625</u>
Total cash received		<u>29,459</u>	<u>27,972</u>
Cash used			
Employees		22,364	20,721
Suppliers		<u>6,375</u>	<u>6,922</u>
Total cash used		<u>28,739</u>	<u>27,643</u>
Net cash from (used by) operating activities	10	<u>720</u>	<u>329</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		<u>8</u>	<u>11</u>
Total cash received		<u>8</u>	<u>11</u>
Cash Used			
Purchase of plant and equipment		<u>700</u>	<u>378</u>
Total cash used		<u>700</u>	<u>378</u>
Net cash from (used by) investing activities		<u>(692)</u>	<u>(367)</u>
FINANCING ACTIVITIES			
Cash received			
Appropriations – contributed equity		<u>25</u>	<u>-</u>
Total cash received		<u>25</u>	<u>-</u>
Cash Used			
Other cash used		<u>-</u>	<u>-</u>
Total cash used		<u>-</u>	<u>-</u>
Net cash from (used by) financing activities		<u>25</u>	<u>-</u>
Net increase (decrease) in cash held		53	(38)
Cash at the beginning of the reporting period		<u>172</u>	<u>210</u>
Cash at the end of the reporting period		<u>225</u>	<u>172</u>

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

Schedule of Commitments

as at 30 June 2007

	<i>2007</i>	2006
	\$'000	\$'000
BY TYPE		
Commitments receivable		
GST recoverable on commitments	<u>(696)</u>	<u>(827)</u>
Total commitments receivable	<u>(696)</u>	<u>(827)</u>
Other commitments		
Operating leases	6,812	8,337
Other commitments	<u>848</u>	<u>764</u>
Total other commitments	<u>7,660</u>	<u>9,101</u>
Net commitments by type	<u>6,964</u>	<u>8,274</u>
BY MATURITY		
Operating lease commitments		
One year or less	2,160	1,757
From one to five years	4,033	5,822
Over five years	<u>—</u>	<u>—</u>
Total operating lease commitments	<u>6,193</u>	<u>7,579</u>
Other commitments		
One year or less	535	340
From one to five years	236	355
Over five years	<u>—</u>	<u>—</u>
Total other commitments	<u>771</u>	<u>695</u>
Net commitments by maturity	<u>6,964</u>	<u>8,274</u>

NB: Commitments are GST inclusive where relevant.

Other commitments are primarily contracts for office services.

Operating leases included are effectively non-cancellable and comprise:

Leases for office accommodation

Lease payments are subject to fixed annual increase in accordance with the lease agreement.

Agreements for the provision of motor vehicles to senior executive officers

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

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

Notes to and forming part of the Financial Statements

Note	Description
1	Summary of Significant Accounting Policies
2	Events after the Balance Sheet Date
3	Income
4	Expenses
5	Financial Assets
6	Non-Financial Assets
7	Payables
8	Provisions
9	Restructuring
10	Cash Flow Reconciliation
11	Contingent Liabilities and Assets
12	Executive Remuneration
13	Remuneration of Auditors
14	Average Staffing Levels
15	Financial Instruments
16	Appropriations
17	Special Accounts
18	Compensation and Debt Relief
19	Reporting of Outcomes

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of the Productivity Commission

The Productivity Commission (the Commission) is an Australian Public Service organisation. The Commission is the Australian Government's principal review and advisory body on micro economic policy and regulation.

The Commission is structured to meet a single outcome:

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

The Commission's single outcome consists of 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.

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

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

1.2 Basis of Preparation of the Financial Report

The Financial Statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are a General Purpose Financial Report.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2006; and

- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that apply for the reporting period.

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

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

Unless alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Entity and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments.

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

1.3 Significant Accounting Judgements and Estimates

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

- The fair value of leasehold improvements has been taken to be the fair value of similar leasehold improvements as determined by an independent valuer.

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

1.4 Statement of Compliance

Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial report complies with these standards. Some Australian equivalents to IFRSs and other

Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. The Commission is a not for profit entity and has applied these requirements, so while this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRSs) it cannot make this statement.

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the effective date in the current period.

The following amendments, revised standards or interpretations have become effective but have had no financial impact or do not apply to the operations of the Commission.

Amendments:

- 2005-1 Amendments to Australian Accounting Standards [AASBs 1, 101, 124]
- 2005-4 Amendments to Australian Accounting Standards [AASBs 139, 132, 1, 1023 and 1038]
- 2005-5 Amendments to Australian Accounting Standards [AASBs 1 and 139]
- 2005-6 Amendments to Australian Accounting Standards [AASB 3]
- 2005-9 Amendments to Australian Accounting Standards [AASBs 4, 1023, 139 and 132]
- 2006-1 Amendments to Australian Accounting Standards [AASB 121]
- 2006-3 Amendments to Australian Accounting Standards [AASB 1045]
- 2007-7 Amendments to Australian Accounting Standards [AASBs 1, 2, 4,5, 107 and 128]

Interpretations:

- UIG 4 Determining whether an Arrangement contains a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies

- UIG 8 Scope of AASB 2
- UIG 9 Reassessment of Embedded Derivatives

UIG 4 and UIG 9 might have impacts in future periods, subject to existing contracts being renegotiated.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

Financial instrument disclosure

'AASB 7 Financial Instruments: Disclosures' is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that presently. Associated with the introduction of AASB 7, a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]. These changes have no financial impact but will affect the disclosure presented in future financial reports.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the Commission.

- AASB 1049 Financial Reporting of General Government Sectors by Governments
- UIG 10 Interim Financial Reporting and Impairment

1.5 Revenue

Revenue from Government

Amounts appropriated for departmental outputs appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

Other Types of Revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;
- The revenue and transactions costs incurred can be reliably measured; and
- It is probable that the economic benefits associated with the transaction will flow to the Entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- The amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- The probable economic benefits associated with the transaction will flow to the Entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

1.6 Gains

Other Resources Received Free of Charge

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

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government Agency or Authority as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7 and 9).

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

Sale of Assets

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

1.7 Transactions with the Government as Owner

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in Contributed Equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government Agency or Authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.8 Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within 12 months of balance date are measured at their nominal amounts.

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

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

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

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

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

Separation and redundancy

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2007.

Superannuation

Staff of the Commission are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The Commission makes employer contributions to the Employee Superannuation Scheme at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Commission's employees. The Commission accounts for the contributions as if they were contribution to defined contribution plans.

From 1 July 2005, new employees are eligible to join the PSSap scheme.

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

1.9 Leases

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

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

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

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

1.10 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.11 Financial Risk Management

The Commission's activities expose it to normal commercial financial risk. As a result of the nature of the Commission's business and internal and Australian Government policies, dealing with the management of financial risk, the Commission's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

1.12 Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another Entity. In the case of a transfer to another Entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expires.

1.13 Impairment of Financial Assets

Financial assets are assessed for impairment at each balance date.

Financial Assets held at Amortised Cost

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

Financial Assets held at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by

delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of

the estimated future cash flows discounted at the current market rate for similar assets.

Available for Sale Financial Assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the Income Statement.

1.14 Supplier and other payables

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.15 Contingent Liabilities and Contingent Assets

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

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

1.16 Acquisition of assets

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

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

1.17 Property, Plant and Equipment

Asset recognition threshold

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

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

Revaluations

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

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

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

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the operating result. Revaluation decrements for a class of asset are recognised directly through the operating result except to the extent that they reverse a previous revaluation increment for that class.

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

Depreciation

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

Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future, reporting periods as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	<i>2007</i>	<i>2006</i>
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years
Intangibles (Computer Software)	5 years	5 years
Leasehold make-good	Lease term	Lease term

Impairment

All assets were assessed for impairment at 30 June 2007. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

1.18 Intangibles

The Commission's intangibles comprise commercially purchased software. These assets are carried at cost.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Commission's software are 5 years (2005-06: 5 years).

All software assets were assessed for indicators of impairment as at 30 June 2007.

1.19 Taxation

The Commission is exempt from all forms of taxation except fringe benefits tax (FBT) and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

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

Note 2: Events after the Balance Sheet Date

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.

Note 3: Income

Revenue

Note 3A: Revenue from Government

	2007	2006
	\$'000	\$'000
Appropriation:		
Departmental Outputs	<u>32,251</u>	<u>28,449</u>
Total revenue from Government	<u>32,251</u>	<u>28,449</u>

Note 3B: Sale of goods and rendering of services

	2007	2006
	\$'000	\$'000
Provision of goods - related entities	-	-
Provision of goods - external entities	<u>3</u>	<u>2</u>
Total sales of goods	<u>3</u>	<u>2</u>
Rendering of services - related entities	16	18
Rendering of services - external entities	<u>14</u>	<u>27</u>
Total rendering of services	<u>30</u>	<u>45</u>
Total sales of goods and rendering of services	<u>33</u>	<u>47</u>

Gains

Note 3C: Sale of assets

	2007	2006
	\$'000	\$'000
Infrastructure, plant and equipment		
Proceeds from sale	8	11
Carrying value of assets sold	-	(2)
Selling expense	<u>-</u>	<u>-</u>
Net gain from sale of assets	<u>8</u>	<u>9</u>

Note 3D: Other gains

	2007	2006
	\$'000	\$'000
Resources received free of charge	<u>168</u>	<u>38</u>
Total other gains	<u>168</u>	<u>38</u>

Note 4: Expenses*Note 4A: Employee benefits*

	2007	2006
	\$'000	\$'000
Wages and salaries	17,810	16,664
Superannuation	3,022	2,801
Leave and other entitlements	1,479	1,545
Separation and redundancies	<u>-</u>	<u>35</u>
Total employee expenses	<u>22,311</u>	<u>21,045</u>

Note 4B: Suppliers

	2007	2006
	\$'000	\$'000
Provision of goods - related entities	25	4
Provision of goods - external entities	397	304
Rendering of services - related entities	130	453
Rendering of services - external entities	3,654	3,485
Operating lease rentals:		
Minimum lease payments	1,866	1,813
Workers compensation premiums	<u>105</u>	<u>114</u>
Total supplier expenses	<u>6,177</u>	<u>6,173</u>

Note 4C: Depreciation and amortisation

	2007	2006
	\$'000	\$'000
Depreciation:		
Infrastructure, plant and equipment	<u>290</u>	<u>266</u>
Total depreciation	<u>290</u>	<u>266</u>
Amortisation:		
Leasehold improvements	224	223
Leasehold make-good	59	126
Intangibles:		
Computer software	<u>12</u>	<u>11</u>
Total amortisation	<u>295</u>	<u>360</u>
Total depreciation and amortisation	<u>585</u>	<u>626</u>

Note 4D: Finance costs

	2007	2006
	\$'000	\$'000
Unwinding of discount	<u>32</u>	<u>22</u>
Total finance costs	<u>32</u>	<u>22</u>

Note 4E: Write-down and impairment of assets

	2007	2006
	\$'000	\$'000
Impairment / write-down of non-financial assets		
Plant & equipment	8	5
Computer software	<u>-</u>	<u>-</u>
Total write-down and impairment of assets	<u>8</u>	<u>5</u>

Some items of plant and equipment and software became obsolete during 2006-07 when it became apparent that there were assets on the fixed asset register which were no longer in use. The recoverable amount of these assets was determined as nil.

Note 5: Financial Assets*Note 5A: Cash and cash equivalents*

	2007	2006
	\$'000	\$'000
Cash on hand or on deposit	<u>225</u>	<u>172</u>
Total cash and cash equivalents	<u>225</u>	<u>172</u>

Note 5B: Trade and other receivables

	2007	2006
	\$'000	\$'000
Goods and services	233	159
Appropriations receivable: for existing outputs	<u>11,610</u>	<u>7,279</u>
Total appropriations receivable	<u>11,610</u>	<u>7,279</u>
GST receivable from the Australian Taxation Office	<u>87</u>	<u>142</u>
Total trade and other receivables	<u>11,930</u>	<u>7,580</u>
Receivables are aged as follows:		
Not overdue	11,886	7,580
Overdue by:		
30 to 60 days	41	-
More than 90 days	<u>3</u>	<u>-</u>
Total receivables	<u>11,930</u>	<u>7,580</u>
Receivables are represented by:		
Current	11,930	7,580
Non-current	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>11,930</u>	<u>7,580</u>

Note 6: Non-Financial Assets*Note 6A: Land and buildings*

	2007	2006
	\$'000	\$'000
Leasehold improvements		
- fair value	1,286	1,969
- accumulated amortisation	<u>-</u>	<u>(673)</u>
Total leasehold improvements	<u>1,286</u>	<u>1,296</u>
Total land and buildings (non-current)	<u>1,286</u>	<u>1,296</u>

All revaluations are conducted in accordance with the revaluation policy stated at Note 1. In 2006-07, an independent valuer, Kyle Baxter JP (Qualified), AVAA, SAPI, of the Australian Valuation Office conducted the valuations. Revaluation increment of \$454,000 for leasehold improvements was credited to the asset revaluation reserve by asset class and included in the equity section of the balance sheet, no decrements were expensed. (2006: nil).

No indicators of impairment were found for leasehold improvements.

Note 6B: Infrastructure, plant and equipment

	2007	2006
	\$'000	\$'000
Infrastructure, plant and equipment		
- fair value	1,125	2,661
- accumulated depreciation	<u>-</u>	<u>(2,037)</u>
Total infrastructure ,plant and equipment	<u>1,125</u>	<u>624</u>
Total infrastructure, plant and equipment (non-current)	<u>1,125</u>	<u>624</u>

All revaluations are conducted in accordance with the revaluation policy stated at Note 1. In 2006-07, an independent valuer, Kyle Baxter JP (Qualified), AVAA, SAPI, of the Australian Valuation Office conducted the valuations. Revaluation increment of \$99,000 for infrastructure, plant and equipment was credited to the asset revaluation reserve by asset class and included in the equity section of the balance sheet, no decrements were expensed. (2006: nil).

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

Note 6C: Intangibles

	2007	2006
	\$'000	\$'000
Computer software at cost		
Purchased	463	575
Accumulated amortisation	<u>(441)</u>	<u>(541)</u>
Total intangibles (non-current)	<u>22</u>	<u>34</u>

No indicators of impairment were found for intangibles.

*Note 6D: Analysis of property, plant and equipment, and intangibles**TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2006-07)*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
As at 1 July 2006				
Gross book value	1,969	2,661	575	5,205
Accumulated depreciation/amortisation	(673)	(2,037)	(541)	(3,251)
Net book value 1 July 2006	1,296	624	34	1,954
Additions - by purchase	–	700	–	700
Revaluations and impairments through equity	454	99	–	553
Depreciation/amortisation expense	(283)	(290)	(12)	(585)
Impairments recognised in the operating result	–	(8)	–	(8)
Other movements - adjustment to provision for makegood	(181)	–	–	(181)
Net book value 30 June 2007	1,286	1,125	22	2,433
Net book value as of 30 June 2007 represented by:				
Gross book value	1,286	1,125	463	2,874
Accumulated depreciation/amortisation	–	–	(441)	(441)
	1,286	1,125	22	2,433

TABLE A - Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2005-06)

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
As at 1 July 2005				
Gross book value	1,969	2,529	559	5,057
Accumulated depreciation/amortisation	(324)	(1,994)	(530)	(2,848)
Net book value 1 July 2005	1,645	535	29	2,209
Additions - by purchase	–	362	16	378
Depreciation/amortisation expense	(349)	(266)	(11)	(626)
Impairments recognised in the operating result	–	(5)	–	(5)
Disposals - Other disposals	–	(2)	–	(2)
Net book value 30 June 2006	1,296	624	34	1,954
Net book value as of 30 June 2006 represented by:				
Gross book value	1,969	2,661	575	5,205
Accumulated depreciation/amortisation	(673)	(2,037)	(541)	(3,251)
	1,296	624	34	1,954

Note 6E: Other non-financial assets

	2007	2006
	\$'000	\$'000
Prepayments	<u>310</u>	<u>337</u>
Total other non-financial assets	<u>310</u>	<u>337</u>

All other non-financial assets are current assets.

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

Note 7: Payables

Note 7A: Suppliers

	2007	2006
	\$'000	\$'000
Trade creditors	<u>434</u>	<u>147</u>
Total supplier payables	<u>434</u>	<u>147</u>
Supplier payables represented by:		
Current	434	147
Non-current	<u>-</u>	<u>-</u>
Total supplier payables	<u>434</u>	<u>147</u>

Settlement is usually made net 30 days.

Note 8: Provisions*Note 8A: Employee provisions*

	2007	2006
	\$'000	\$'000
Salaries and wages	161	271
Leave	7,304	7,067
Superannuation	<u>30</u>	<u>25</u>
Total employee provisions	<u>7,495</u>	<u>7,363</u>
Employee provisions are represented by:		
Current	7,053	6,763
Non-current	<u>442</u>	<u>600</u>
Total employee provisions	<u>7,495</u>	<u>7,363</u>

The classification of current includes amounts for which there is not an unconditional right of deferral of one year, hence in the case of employee provisions the above classification does not equal the amount expected to be settled within twelve months from the reporting date. Employee provisions expected to be settled in one year \$3,472,000 (2006: \$3,313,000), in excess of one year \$3,693,000 (2006: \$4,050,000).

Note 8B: Other provisions

	2007	2006
	\$'000	\$'000
Restoration obligations	<u>573</u>	<u>722</u>
Total other provisions	<u>573</u>	<u>722</u>
Other provisions are represented by:		
Current	-	-
Non-current	<u>573</u>	<u>722</u>
Total supplier payables	<u>573</u>	<u>722</u>

	Provision for restoration \$'000
Carrying amount 1 July 2006	722
Amounts reversed	(181)
Unwinding of discount or change in discount rate	<u>32</u>
Closing balance 2007	<u>573</u>
Non-current	<u>573</u>
Total supplier payables	<u>573</u>

The Commission currently has 2 agreements for the leasing of premises which have provisions requiring the Commission to restore the premises to their original condition at the conclusion of the lease. The Commission has made provision to reflect the present value of this obligation.

Note 9: Restructuring

Departmental Restructuring

As a result of a restructuring of administrative arrangements, the Commission assumed responsibility for the following functions:

Business Cost Calculator

In respect of functions assumed, there were no assets or liabilities transferred to the Commission.

	2007	2006
	\$'000	\$'000
Revenues and Expenses of the Business Cost Calculator		
Revenues		
Recognised by the Commission	712	-
Recognised by the Department of Industry, Tourism and Resources	<u>211</u>	<u>-</u>
Total Revenues	<u><u>923</u></u>	<u><u>-</u></u>
Expenses		
Recognised by the Commission	479	-
Recognised by the Department of Industry, Tourism and Resources	<u>211</u>	<u>-</u>
Total Expenses	<u><u>690</u></u>	<u><u>-</u></u>

Note 10: Cash Flow Reconciliation

	2007	2006
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Report Cash and Cash Equivalents as per:		
Cash Flow Statement	225	172
Balance Sheet	<u>225</u>	<u>172</u>
Difference	<u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of operating result to net cash from operating activities:		
Operating result	3,347	672
Depreciation / amortisation	585	626
Finance costs	32	22
Net write-down of non-financial assets	8	5
(Gain) / loss on disposal assets	(8)	(9)
(Increase) / decrease in net receivables	(3,690)	(1,234)
(Increase) / decrease in prepayments	27	(151)
Increase / (decrease) in employee provisions	132	438
Increase / (decrease) in supplier payables	<u>287</u>	<u>(40)</u>
Net cash from / (used by) operating activities	<u><u>720</u></u>	<u><u>329</u></u>

Note 11: Contingent Liabilities and Assets

At 30 June 2007, to the best of its knowledge, the Commission was not exposed to any unrecognised contingencies that would have any material effect on the financial statements.

Note 12: Executive Remuneration

	2007	2006
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	3	1
\$145,000 to \$159,999	2	1
\$160,000 to \$174,999	–	1
\$175,000 to \$189,999	6	–
\$190,000 to \$204,999	3	6
\$205,000 to \$219,999	2	4
\$220,000 to \$234,999	3	4
\$235,000 to \$249,999	1	2
\$250,000 to \$264,999	2	3
\$265,000 to \$279,999	2	3
\$280,000 to \$294,999	1	–
\$310,000 to \$324,999	1	–
\$325,000 to \$339,999	–	1
Total	<u>26</u>	<u>26</u>
Aggregate amount of total remuneration of executives shown above	\$5,413,701	\$5,783,850
Aggregate amount of separation and redundancy payments during the year to executives shown above	–	\$175,318

Note 13: Remuneration of Auditors

	<i>2007</i>	<i>2006</i>
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Commission.		
The value of the services provided was:	<u>32</u>	<u>38</u>
	<u>32</u>	<u>38</u>

No other services were provided by the Auditor-General.

Note 14: Average Staffing Levels

	<i>2007</i>	<i>2006</i>
The average staffing levels for the Commission during the year were:	202	193

The average staffing level is in respect of all employees of the Commission including Holders of Public Office.

Further information on staffing levels is provided in Appendix A of the Annual Report.

Note 15: Financial Instruments*Note 15A: Interest Rate Risk*

	Note	Floating Interest Rate		Fixed Interest Rate		Non Interest Bearing		Total		Effective Interest Rate ^a	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		%
Financial Assets											
Cash and cash equivalents	5A	–	–	–	–	225	172	225	172	n/a	n/a
Receivables for goods and services	5B	–	–	–	–	233	159	223	159	n/a	n/a
Total		–	–	–	–	458	331	458	331		
Total assets		–	–	–	–			14,988	10,043		
Financial Liabilities											
Trade creditors	7A	–	–	–	–	434	147	434	147	n/a	n/a
Total		–	–	–	–	434	147	434	147		
Total liabilities		–	–	–	–			8,502	8,232		

^a Weighted average.

Note 15B: Fair Values of Financial Assets and Liabilities

	Note	2007		2006	
		Total Carrying Amount	Aggregate Fair Value	Total Carrying Amount	Aggregate Fair Value
		\$'000	\$'000	\$'000	\$'000
Department					
Financial Assets					
Cash and cash equivalents	5A	225	225	172	172
Receivables for goods and services	5B	233	233	159	159
Total Financial Assets		458	458	331	331
Financial Liabilities (Recognised)					
Trade creditors	7A	434	434	147	147
Total Financial Liabilities (Recognised)		434	434	147	147
Financial Liabilities (Unrecognised)					
		-	-	-	-
Total Financial Liabilities (Unrecognised)		-	-	-	-

Note 15C: 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 Balance Sheet.

The Commission has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 16: Appropriations*Table A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations and borrowings*

Particulars	Departmental Outputs	
	2007	2006
	\$'000	\$'000
Balance carried forward from previous period	7,568	6,397
Appropriation Act:		
Appropriation Act (No 1)	28,471	28,247
Appropriation Act (No 3)	3,068	202
FMA Act:		
Appropriations to take account of recoverable GST (FMA s 30A)	680	685
Annotations to 'net appropriations' (FMA s 31)	152	58
Adjustment of appropriations on change of entity function (FMA s 32)	712	-
Total appropriations available for payments	40,651	35,589
Cash payments made during the year (GST inclusive)	(29,414)	(28,021)
Balance of authority to draw cash from the CRF for Ordinary Annual Services Appropriations	<u>11,237</u>	<u>7,568</u>
<i>Represented by:</i>		
Cash at bank and on hand	225	172
Departmental appropriations receivable	10,925	7,254
GST receivable from the ATO	87	142
Total	<u>11,237</u>	<u>7,568</u>

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

Table B Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Other than Ordinary Annual Services Appropriations

Particulars	Non-operating	
	<i>Equity</i>	
	2006	2006
	\$'000	\$'000
Balance carried forward from previous period	25	25
Appropriation Act:		
Appropriation Act (No 2)	-	-
Appropriation Act (No 4)	685	-
FMA Act:		
Appropriations to take account of recoverable GST (FMA s 30A)	<u>-</u>	<u>-</u>
Total appropriations available for payments	710	25
Cash payments made during the year (GST inclusive)	<u>(25)</u>	<u>-</u>
Balance of authority to draw cash from the CRF for Ordinary Annual Services Appropriations	<u>685</u>	<u>25</u>
<i>Represented by:</i>		
Cash at bank and on hand	-	-
Appropriations receivable	<u>685</u>	<u>25</u>
Total	<u>685</u>	<u>25</u>

Departmental and non-operating appropriations do not lapse at financial year end. However, the responsible Minister may decide that part or all of a departmental or non-operating appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

Note 17: Special Accounts

The Commission has an Other Trust Monies Special Account and a Services for other Governments and Non-Agency Bodies Account. Both accounts were established under section 20 of the *Financial Management and Accountability Act 1997*. For the years ended 30 June 2000-2007 the accounts had nil balances and there were no transactions debited or credited to them.

The purpose of the Other Trust Monies Special Account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. Any money held is thus special public money under section 16 of the *Financial Management and Accountability Act 1997*.

The purpose of the Services for other Governments and Non Agency Bodies Special Account is for expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the *Financial Management and Accountability Act 1997*.

Note 18: Compensation and Debt Relief

In both 2006-07 and 2005-06, no expenses and/or provisions in relation to the following compensation and debt relief mechanisms were made during the reporting period:

- (a) 'Act of Grace' expenses;
- (b) waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*;
- (c) ex-gratia payments;
- (d) payments under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme; and
- (e) payments in special circumstances relating to APS employment pursuant to section 73 of the *Public Service Act 1999*.

Note 19: Reporting of Outcomes

Note 19A: Net Cost of Outcome Delivery

	Outcome 1	
	2007	2006
	\$'000	\$'000
Expenses		
Departmental	<u>29,113</u>	<u>27,871</u>
Total expenses	<u>29,113</u>	<u>27,871</u>
Costs recovered from provision of goods and service to the non government sector		
Departmental	<u>17</u>	<u>29</u>
Total costs recovered	<u>17</u>	<u>29</u>
Other external revenues		
Departmental	<u>24</u>	<u>27</u>
Total other external revenues	<u>24</u>	<u>27</u>
Net cost of outcome	<u>29,072</u>	<u>27,815</u>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.

Note 19B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1.1										Outcome 1	
	Output 1.1.1		Output 1.1.2		Output 1.1.3		Output 1.1.4		Output 1.1.5		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses												
Employees	11,174	10,563	3,123	3,018	2,980	2,235	178	180	4,856	5,049	22,311	21,045
Suppliers	3,035	3,201	1,006	910	874	494	37	37	1,225	1,531	6,177	6,173
Depreciation and amortisation	282	314	86	90	82	66	5	5	130	151	585	626
Other	19	14	6	4	6	3	–	–	9	6	40	27
Total expenses	14,510	14,092	4,221	4,022	3,942	2,798	220	222	6,220	6,737	29,113	27,871
Funded by:												
Revenues from government	14,100	14,384	4,700	4,105	6,580	2,856	200	227	6,671	6,877	32,251	28,449
Sales of goods and services	15	24	5	7	6	5	–	–	7	11	33	47
Other non-taxation revenues	86	24	6	7	8	5	–	–	76	11	176	47
Total revenues	14,201	14,432	4,711	4,119	6,594	2,866	200	227	6,754	6,899	32,460	28,543

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget Outcome.



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Index

- Aboriginal and Torres Strait Islander Social Justice Commissioner, 52, 139, 160
- accrual-based outcomes and outputs framework, 59, 91, 98
- ageing of Australia's population, 1, 2, 6, 9, 18, 23, 40, 194, 195
- ageing research study, 2, 43, 52, 128, 130, 160
- agriculture research paper, 52, 160
- Allen Consulting Group, 129, 138, 159
- annual review of regulatory burdens research study, 25, 26, 29, 31, 59, 115, 166
- Asia Pacific Economic Cooperation (APEC) forum, 46, 112
- audited financial statements, 63, 211–51
- Australian Bureau of Statistics (ABS), 2, 3, 4, 5, 37, 40, 41, 42, 135, 153, 192
- Australian Chamber of Commerce and Industry (ACCI), 97
- Australian Competition and Consumer Commission (ACCC), 39, 156
- Australian Consumers' Association, 46, 110
- Australian Council of Social Services, 138, 139, 159
- Australian Council of Trade Unions, 52, 128, 159
- Australian Government Competitive Neutrality Complaints Office (AGCNCO), 34, 63, 85, 149–52, 187–8
- Australian Industry Group, 128, 139, 159, 160
- Australian Institute of Health and Welfare, 40, 101, 135
- Australian National Audit Office, 51, 62, 64, 101, 212–13
 use of Commission outputs, 101
- Australian National Retailers Association, 46, 111
- Australian National University, services trade reform project, 40
- Australian Petroleum Production and Exploration Association, 46, 110
- Australian Spatial Information Business Association, 111
- Australian Workplace Agreements, 65
-
- benchmarking, 94, 101, 130, 135
 see also business regulation benchmarking
- broadcasting inquiry, 50, 96, 97, 100, 128
- building regulation reform research study, 129

Business Council of Australia, 46, 110, 128, 129, 139, 149, 159, 160
business regulation benchmarking, 25, 26, 29, 31, 38, 49, 108, 113, 115, 118, 119, 120,
169–70, 183–4

Centre of Policy Studies, 37, 41
chemicals and plastics regulation research study, 25, 29, 31, 168–9
child care, 2, 10, 11, 20–3, 110, 132, 137, 195
China Australia Governance Program, 42, 153
COAG (Council of Australian Governments), 1, 25, 29, 32, 46, 49, 52, 94, 100, 108, 109,
110, 120, 129, 130, 131, 132, 137, 140, 158, 168, 169, 174, 175, 184, 185
business regulation benchmarking, 25, 29, 46, 49, 108, 120, 169, 184
national reform agenda, 2, 9, 12, 13, 23, 24, 25, 36, 119, 140, 153, 157, 189, 194
regulation impact analysis requirements, 28, 29, 35, 141, 142, 144, 146, 148
collective agreement, 66, 67, 70
Commissioners, 42, 57–8, 61, 62, 65, 76, 198–200
Commissioners, Associate, 57, 59, 76, 77
Committee for Economic Development Australia, 157
competitive neutrality complaints activities, 26, 34, 43, 53, 62, 85, 91, 94, 95, 96, 149–52,
187–8
compliance index, 88–9
conservation of Australia’s historic heritage places inquiry, 48, 53, 120, 130, 171
consumer policy framework inquiry, 25, 26, 29, 30, 114, 165
consumer product safety system research study, 48, 52, 121, 128, 184–5
CSIRO, 110, 182

Defence Housing Australia, competitive neutrality complaint, 187–9
Department of Finance and Administration, 151
Department of Industry, Tourism and Resources, 28, 144, 159, 160
Department of the Prime Minister and Cabinet, 28, 75, 144, 145
Department of the Treasury, 28, 93, 97, 144, 151, 157
Disability Discrimination Act 1992, 81
Disability Discrimination Act inquiry, 19, 129
disability support pension, 9, 10, 15, 18, 195

ecologically sustainable development (ESD), 73–4
economic impacts of migration and population growth research study, 52, 129
economic implications of an ageing Australia research study, *see* ageing research study

economic infrastructure, 32, 94, 108, 130, 166

economic modelling, 48, 52, 83, 99, 113, 119, 120, 160, 176

see also National Reform Agenda, potential benefits research paper

economic performance of Australia, 1, 20

effective marginal tax rates, 15–18

energy efficiency inquiry, *see* private cost effectiveness of improving energy efficiency inquiry

Energy Reform Implementation Group, 39, 46, 52, 110, 129, 140, 155, 156, 157

Environment Protection and Biodiversity Conservation Act 1999, 73

Environment Protection and Heritage Council, 48, 120, 171, 173

environmental sustainability, 36, 154

federal election proposals for the Commission’s work program

 Coalition Government, 46, 108

 Labor Opposition, 46, 108–9

financial and staffing resources summary, 60

Financial Management and Accountability Act 1997, 70, 75, 221, 249

first home ownership inquiry, 50, 51, 52, 97, 128, 130

fraud control certificate, 79

Freedom of Information, 74, 85–7

Freedom of Information Act 1982, 74, 75, 85, 87

gambling inquiry, 43, 50, 51, 52, 96, 121, 128, 130

Global Trade Analysis Project, 41, 72

government-commissioned projects, 25, 26, 61, 91, 93, 94, 95, 96, 113–30, 163–85

government trading enterprises, performance, 29, 32–3, 94, 130, 134–5, 140, 154

Group of Eight (universities), 46, 110

health promotion and disease prevention, 11–13, 190, 197

health workforce research study, 100, 113, 128, 129, 130

heritage inquiry, *see* conservation of Australia’s historic heritage places inquiry

House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, 139

House of Representatives Standing Committee on Economics, Finance and Public Administration, 50, 100

House of Representatives Standing Committee on Health and Ageing, 50, 100

Human Rights and Equal Opportunity Commission, 46, 109–110

Independent Pricing and Regulatory Tribunal of NSW (IPART), 138

Indigenous Australians, 32, 52, 111, 113, 132, 133, 135, 195

- data compendium, 31, 133, 136, 138
- indicators of disadvantage report, 25, 28, 29, 31, 32, 43, 50, 51, 53, 93, 100, 130, 131, 134, 135, 136, 138–9, 160
- local government, 167

international pharmaceutical price differences research study, 129

labour force participation, 1–24, 28, 36, 108, 154, 157, 190, 194, 195

- education and training, 13–15, 190
- health promotion and disease prevention, 11–13, 190, 197
- international comparisons, 7–8, 21, 36, 157, 159, 194
- potential gains from increased participation, 9–10
- potential policy action, 11–23
- work incentives, 15–20, 190

local government revenue raising capacity research study, 25, 29, 31, 59, 115, 167

Master Builders Australia, 46, 111

media coverage of the Commission, 47, 49, 50, 53, 97, 113, 121, 129, 130, 138, 139, 140, 160, 161

medical technology research study, 129

Melbourne Institute of Applied Economic and Social Research, 41, 42, 153, 157

ministerial councils, 33, 36, 135

- regulatory impact analysis requirements, 28, 34, 141, 144

Ministerial Council on Consumer Affairs, 29, 48, 121, 148, 184–5

Ministerial Council on Energy, 46, 110

national access regime, 48, 120, 178–9

National Bureau of Economic Research, 41

National Centre for Social and Economic Modelling (NATSEM), 40

National Competition Council, 144

national competition policy reforms inquiry, 52, 129, 130

National Reform Agenda (NRA), 2, 9, 12, 13, 23, 24, 28, 39, 137, 140, 153, 155, 157, 189

- potential benefits research paper, 9, 25, 28, 29, 34, 37, 52, 53, 119, 153, 155, 157, 158, 161, 189–90, 197

National Rural Health Alliance, 111

National Water Commission, 49

National Water Initiative, 29, 49
national workers' compensation and OHS frameworks inquiry, 49, 50, 100, 121, 128
New Zealand, 165
 own 'productivity commission', 46, 112
 regulation review, 42, 146
non-traditional work research paper,
NSW Business Chamber, 46, 111

Occupational Health and Safety (Commonwealth Employment) Act 1991, 69, 75
OECD, 42, 52, 53, 109, 140, 146, 157, 158, 159, 160
 Second World Forum, 25, 52
 comparative child care support, 21–2
 comparative economic performance, 1
 comparative labour force engagement of people with disabilities, 18–19
 comparative labour force participation, 7–8, 21, 194
 comparative literacy and numeracy performance, 13–14
Office of Best Practice Regulation (OBPR), 25, 28, 33–4, 52, 54, 94, 98, 99, 141–9
Office of Regulation Review (ORR), 25, 33, 98, 141
overcoming Indigenous disadvantage report, 25, 28, 29, 31, 32, 43, 50, 51, 53, 93, 100,
 130, 131, 134, 135, 136, 138–9, 160

parliamentary committees, 36, 40, 50, 52, 63, 94, 101, 102–7, 138, 139, 160, 189
 recommendations involving the Commission, 46, 100
Parliamentary Joint Committee on the Australian Crime Commission, 101, 109
performance benchmarking of Australian business regulation study, *see* business regulation
 benchmarking
performance reporting activities, 26, 31–3, 36, 53, 91, 95, 130–40
Potential Benefits of the National Reform Agenda, Commission research paper, 9, 25, 28,
 29, 34, 37, 52, 53, 119, 153, 155, 157, 158, 161, 189–90, 197
price regulation of airport services inquiry, 25, 26, 30, 43, 48, 53, 114, 119, 130, 178–9
Prime Ministerial Task Group on Emissions Trading, 129
 Commission submission, 25, 28, 36, 153, 190–2
 use of submission, 52, 159
private cost effectiveness of improving energy efficiency inquiry, 129
Productive Reform in a Federal System, Commission roundtable proceedings, 160
productivity, 2, 9–10, 11, 14, 24, 26, 30, 49, 91, 120, 140, 166, 175, 178, 192
 research, 25, 35, 36, 41, 42, 52, 94, 109, 154, 157, 159, 160, 161, 190, 196

Productivity Commission

- activities in 2006-07, 25, 26–36, 93–5, 113–17, 131–5, 143–6, 150–1, 153–4, 163–85, 187–8, 189–204, 205–9
- appointments, 57–8, 59
- collaborative research, 40–1, 192
- competitive neutrality complaints activities, 26, 34, 43, 53, 62, 85, 91, 94, 95, 96, 149–52, 187–8
- conferences, workshops and roundtables, 37, 38, 39, 72, 95, 117, 118, 119, 155–6
- consultancies let, 71–2, 83–4
 - alignment of tender threshold with procurement guidelines, 83
- consultative processes, 36–44, 67–8, 94, 117–8, 135, 156,
- external and internal scrutiny, 63–4
- disability strategy, 70, 80–2
- environmental management system, 74
- feedback on activities, 37, 39, 44–5, 52, 95, 96, 98–100, 118, 134, 136, 146–8, 151, 152, 156–7
- financial statements, 53, 63, 64, 65, 71, 211–51
- governance arrangements, 60–3
- government-commissioned projects, 25, 26, 61, 91, 93, 94, 95, 96, 113–30, 163–85
 - project costs, 116
- government responses to reports, 47–9, 96, 119–21, 122–7, 173, 175, 177–6, 179, 182, 184, 184–5
- legal services, 72
- management of human resources, 64–70
- occupational health and safety, 68–70
- organisation chart, 58
- outcome objective, 26, 47, 59, 91, 93
- performance management and pay, 66–7
- performance reporting activities, 26, 31–3, 36, 53, 91, 95, 130–40
- program performance, 44–53, 91–61
- program performance indicators, 95
- publications, 27–8, 131, 145, 155, 205–9
- quality assurance processes, 36, 37–9, 118–9, 135, 146–8, 151, 155–7
- regulation review activities, 25, 26, 33–4, 35, 42, 52, 62, 91, 94, 95, 141–9
 - see also* Office of Best Practice Regulation
- role, 57
- service charters, 63

speeches and presentations, 25, 36, 52, 53, 129, 154, 160, 198–202, 203–4, 207–8, 209
staffing statistics, 59, 76–8
supporting research and statutory annual reporting, 25, 26, 35–6, 52, 91, 94, 95, 96,
152–61, 189–204
training, 68
visiting officials, 36, 53, 146, 203–4
visiting researchers, 39
website, 39, 40, 43–4, 45, 58, 64, 66, 72, 74, 86, 87, 117, 118, 129–30, 130, 140, 144,
145, 149, 152, 153, 154, 157, 159, 161, 165
workplace diversity, 70
Productivity Commission Act 1998, 57, 73, 75, 83, 112
Public Service Act 1999, 57

Queensland Council of Social Service, 138

Real Estate Institute of Australia, competitive neutrality complaint, 187–8

references to Commission work
in Federal Parliament, 50, 51, 109, 128, 139, 157
in House of Representatives and Senate committee reports, 50, 63, 100–1, 102–5, 138,
160, *see also* parliamentary committees
in Parliamentary Library reports, 51, 101, 106–7, 160
in State and Territory parliaments, 51, 128, 139
in the media, *see* media coverage of the Commission

regulatory impact analysis/regulation impact statements, 25, 28, 33–4, 94, 95, 96, 141, 143,
144, 146, 147, 148,
compliance with government requirements, 35, 54, 144

regulation review activities, 25, 26, 33–4, 35, 42, 52, 62, 91, 94, 95, 141–9
feedback survey, 45, 99, 146–8

Regulation Taskforce, *see* Taskforce on Reducing Regulatory Burdens on Business

Regulatory Institutions Network, 42

Report on Government Services, 31, 45, 50, 51, 52, 53, 98, 99, 100, 101, 132–4, 136–8
survey of users and contributors, 45, 99, 136

Review of Government Service Provision, 42, 43, 96, 131–4, 135

retail tenancy leases inquiry, 25, 26, 30, 114, 167–8

road and rail freight infrastructure pricing inquiry, 25, 26, 29, 30, 43, 49, 114, 117, 118,
119, 120, 129, 130, 158, 174–5

roundtable on behavioural economics and public policy, 39

rural water use and the environment research study, 28, 29, 30, 49, 73, 115, 119, 129, 130

safeguard inquiry on pigmeat imports, 25, 31, 170–1

science and innovation research study, 25, 30, 37, 43, 50, 53, 100, 113, 115, 118, 128, 129, 130, 181–2

Senate Standing Committee on Community Affairs, 50

Senate Standing Committee on Economics, 50, 53, 63

Senate Standing Committee on Employment, Workplace Relations and Education, 50

Senate Standing Committee on Finance and Public Administration, 109

Senate Standing Committee on Legal and Constitutional Affairs, 100

service charters, 63

service provision, *see* Review of Government Service Provision

Snape, Professor Richard (former Deputy Chairman), 72, 154

 2006 Richard Snape Lecture, 153, 154

standard setting and laboratory accreditation research study, 30, 115, 180–1

Statement of Expectations for the Commission, 47, 108

Steering Committee for the Review of Government Service Provision, 31, 32, 45, 61, 85, 87, 93, 96, 99, 101, 130, 135, 137

Steering Committee on National Performance Monitoring of Government Trading Enterprises, 94, 130

supporting research and statutory reporting activities, 25, 26, 35–6, 52, 91, 94, 95, 96, 152–61, 189–204

Taskforce on Reducing Regulatory Burdens on Business, 28, 33, 58, 145, 148

Tasmanian freight subsidy arrangements inquiry, 30, 48, 114, 117, 119, 120, 130, 176–8

Trade Practices Act, 46, 48, 111, 120, 179, 184

Visa International, 111

waste management inquiry, 25, 28, 30, 43, 48, 73, 114, 117, 120, 130, 172–3

water research, 41, 108, 153, 154, 192–4

wheat marketing arrangements, 50, 97, 112

World Trade Organization (WTO), 46, 52, 53, 111–12, 140, 149, 160, 170

workers' compensation inquiry, *see* national workers' compensation and OHS frameworks inquiry

workforce participation, *see* labour force participation

Workplace Relations Act 1996, 66