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***The Productivity Commission***

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

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

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20 October 2011

The Assistant Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Assistant Treasurer

We submit to you the Productivity Commission's annual report for 2010-11. 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

Alison McClelland  
Commissioner

Michael Woods  
Deputy Chairman

Warren Mundy  
Commissioner

Wendy Craik  
Commissioner

Patricia Scott  
Commissioner

Robert Fitzgerald  
Commissioner

Louise Sylvan  
Commissioner

Angela MacRae  
Commissioner

Philip Weickhardt  
Commissioner



## Chairman and Commissioners



Philip Weickhardt, Gary Banks (Chairman) & Louise Sylvan



Angela MacRae & Alison McClelland



Patricia Scott, Warren Mundy & Robert Fitzgerald



Mike Woods (Deputy Chairman) & Wendy Craik

Absent: Siobhan McKenna

## Acknowledgments

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

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# Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
ANZSIC	Australian and New Zealand Standard Industrial Classification
ANZSOG	Australia and New Zealand School of Government
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
BRCWG	Business Regulation and Competition Working Group (COAG)
CAGP	China Australia Governance Program
COAG	Council of Australian Governments
CRC	COAG Reform Council
EGWW	Electricity, gas, water & waste services
GS	Gas supply
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTEs	Government trading enterprises
ICTs	Information and communication technologies
IMF	International Monetary Fund
LP	labour productivity
MFP	multifactor productivity
NAPLAN	National Assessment Program for Literacy and Numeracy
NATSEM	National Centre for Social and Economic Modelling
NBN	National Broadband Network
NCP	National Competition Policy
NRA	National Reform Agenda

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OECD	Organisation for Economic Cooperation and Development
OHS	Occupation health and safety
OID	Overcoming Indigenous Disadvantage report
PC	Productivity Commission
PTA	Preferential Trade Agreement
R&D	Research and development
ROGS	Report on Government Services
SES	Senior Executive Service
WSSD	Water supply sewerage & drainage services
WTO	World Trade Organization

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# 1 Managing Australia's demographic change

The demographic changes underway in Australia, including the role of immigration, have received considerable policy and public attention in recent times. The release of the Third Intergenerational Report in January 2010 and its well-publicised population projection of nearly 36 million by 2050, sparked a debate about the merits of a 'big Australia' and the potential responses to the challenges implicit in this projection. The debate culminated with the Australian Government setting in train a broad-ranging policy agenda. Recently announced initiatives include a Sustainable Population Strategy (box 1.1), a National Urban Policy and a Ministerial Statement on Investing in Regional Australia.

This chapter presents a framework for analysing the issues relevant to a population policy. It draws on a range of recent Commission studies. These include a research paper, *Population and Migration: Understanding the Numbers* (PC 2010f) and a submission to the Taskforce on a Sustainable Population Strategy for Australia. In March 2011, the Commission also held a roundtable on the topic "*A 'Sustainable' Population? — Key Policy Issues*". It brought together representatives from academia, industry and government (PC 2011f).

## **What are the objectives?**

The objectives of 'population policy' have evolved over the years, reflecting changing public priorities. The current focus is on achieving sustainable outcomes. While the concept of sustainability has multiple potential interpretations, there is general agreement that its application needs to be consistent with the overarching objective of maximising the wellbeing of the Australian community (DSEWPC 2011).

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### Box 1.1 ‘Sustainable Australia — Sustainable Communities’

In May 2010, the Australian Government established a Taskforce to support the development of a Sustainable Population Strategy for Australia. The Taskforce engaged in broad public consultation and also drew on reports from three advisory panels, which considered different dimensions of population policy: demography and liveability; productivity and prosperity; and sustainable development.

The final report released in May 2011, aims to ensure that ‘future population change is compatible with the economic, environmental and social wellbeing of Australia’ (DSEWPC 2011, p. 6).

The central objective of the strategy is to lay the platform for a more sustainable Australia. The report outlined three elements as the foundation of the nation’s wellbeing, with policies to support them. They are:

- economic — pursued through policies that improve human capital and workforce participation, as well as through improved planning and infrastructure investment
- liveable communities — pursued through policies that help meet housing needs, improve social inclusion, reform service delivery, close the gap in Indigenous outcomes, and improve public health outcomes
- environmental sustainability — pursued through conservation policies, and policies that address climate change and food security.

The Strategy sees the key function of migration as acquiring the skills Australia needs to support its economy, and thereby delivering higher levels of productivity, labour force participation, and labour force growth. The report does not set a population target, arguing that doing so would compromise the flexibility to use migration as a policy lever to address emerging labour or skills shortages.

Source: DSEWPC (2011).

‘Wellbeing’ needs to be broadly defined to include not only economic aspects that can be readily measured, such as incomes, but also other key influences on quality of life, such as the impacts on environmental and urban amenity, and social and cultural factors. As noted in the *Sustainable Population Strategy*, the pursuit of this high level objective requires recognition of the need for some trade-offs among its subordinate objectives.

The main focus should be on the wellbeing of the existing and future Australian community. As Pincus (2011) argues, the responsibility of a government is primarily to its constituents, although Australia’s humanitarian commitments should also not be ignored. Broadening the objective of policy substantially beyond this would remove the rationale for controlling migration numbers (PC 2011f).

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An important implication of a focus on sustainability is that it requires a dynamic perspective, in which ultimate population levels are less important for policy than the rate of population growth over time and the capacity of the Australian community to accommodate it.

## **Assessing policy options**

Several important considerations apply in seeking the right policy mix. First, the various categories of impacts — economic, social and environmental — are interlinked, and policies targeting specific issues may have positive or negative collateral impacts. For example, negative impacts on economic growth might magnify some of the adverse social effects of immigration, while urban congestion and some environmental impacts might limit growth in incomes, in addition to affecting other aspects of wellbeing.

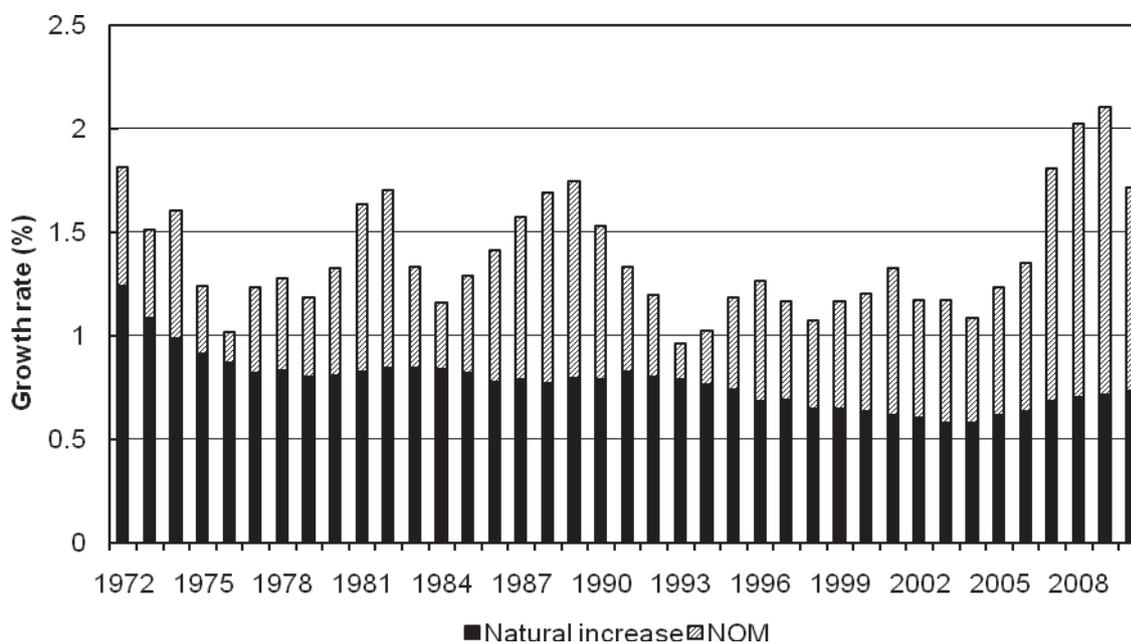
Second, some of the impacts of population growth are manifestations of existing problems that would prevail to some extent, regardless of the rate of growth. Thus, there may be ‘no regrets’ policies addressing existing problems that could have collateral positive effects for the optimal rate of population growth.

Third, there are external forces and constraints affecting some policy mechanisms, particularly those relating to migration. For example, various international forces determine the potential supply of migrants to Australia. Australia also has international humanitarian obligations that influence part of its migrant intake.

## **Future population growth is mainly about migration**

In recent years the contribution of Net Overseas Migration (NOM) to population growth in Australia has increased considerably (figure 1.1). The share of NOM in Australia’s population growth has risen from 40 per cent, on average, over the period 1971-72 to 2005-06, to more than 60 per cent over the past four years.

**Figure 1.1 Contributors to Australia's population growth<sup>a,b,c</sup>**



<sup>a</sup> Years refer to end of June values. <sup>b</sup> The natural increase and NOM presented here do not necessarily sum to the total change in population growth in each year between 1972 and 2006. From 1977 onwards, the ABS classified this as the 'intercensal discrepancy', and is excluded from the figure. <sup>c</sup> The methodology used for estimating NOM changed in 2006, meaning that the data for 2007 and after are not strictly comparable to earlier periods. See PC (2010f) for details.

Data sources: ABS (*Australian Demographic Statistics*, March 2011, Cat. no. 3101.0); ABS (*Australian Historical Population Statistics*, Cat. no. 3105.0.65.001).

With Australia's population progressively ageing (PC 2010f) and the rate of natural increase eventually declining, net overseas migration will play an increasingly important role. For example, on the trends in fertility, mortality and NOM that prevailed in 2008, the share of NOM in population growth would rise to 70 per cent by the middle of this century, and would account for practically all population growth by its end (ABS 2008).

In addition to being the most significant contributor, NOM — and in particular, immigration — is also the source of population growth most amenable to direct policy influence. The Australian Government controls permanent entry into Australia and establishes the conditions under which temporary movements are permitted. For some migration streams, the Australian Government can either set a 'planning level' for the maximum number of entrants, or set various criteria for visa applicants that serve to restrict the type and number of entrants (PC 2010f).

In contrast, natural increase is much more difficult to influence through public policy. For example, programs to promote medical research or subsidise diagnostics and treatment, might increase longevity and reduce death rates, but the effects

would be indirect and uncertain. And the evidence relating to the effect of targeted policies aimed at increasing fertility, such as subsidising births, is inconclusive at best (Lattimore and Pobke 2008).

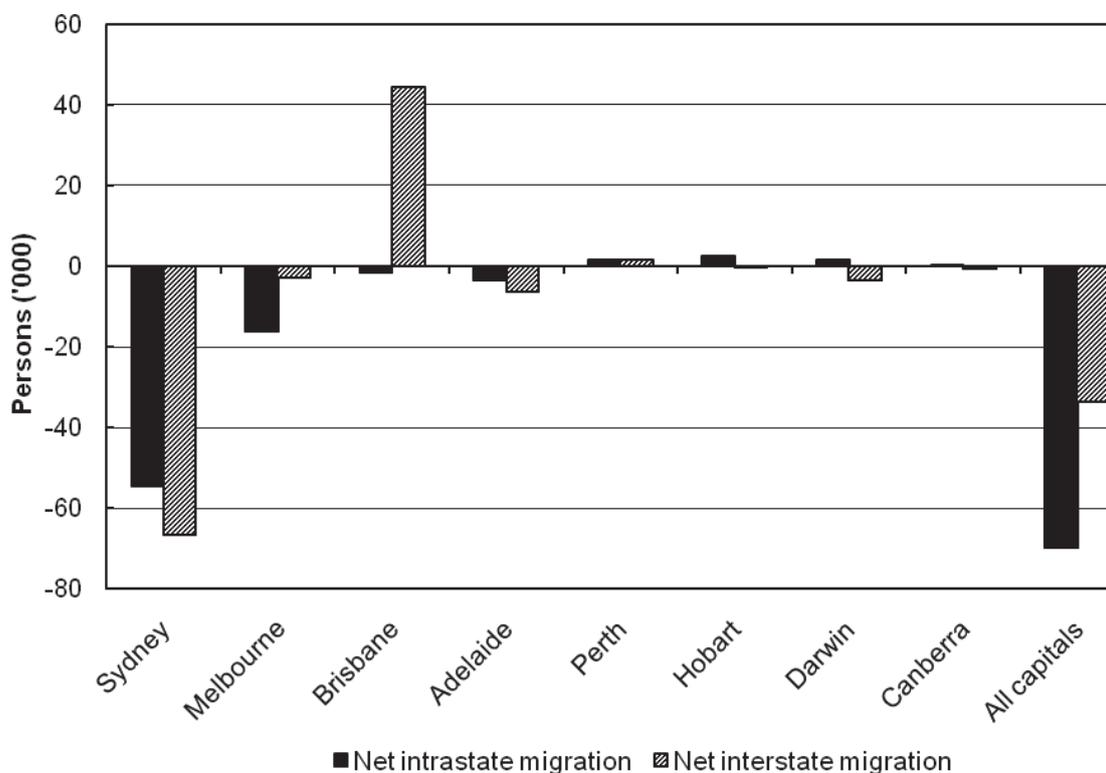
Therefore, to the extent that population growth can be influenced through policy, the issues are primarily about the size and composition of migration flows.

### Internal migration is also important

Migration within Australia can also involve relatively large flows of people. In 2009-10, over 330 000 local residents moved interstate (compared to around 460 000 arrivals from overseas) (ABS 2011d).

Importantly, most of the recent internal migration has been away from Australia's capital cities (figure 1.2). It is likely that this, in part, reflects 'sea change' and 'tree change' pursuit of more space, less congestion, and a better natural environment.

Figure 1.2 Net internal migration in capital cities, 2001–06



Data source: ABS (Australian Demographic Statistics, December 2009, Cat. no. 3101.0).

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While governments have little control over internal migration, these population flows raise the issue of appropriate policy responses to accommodate them.

## **Clarifying the economic contributions of migration**

An understanding of the economic impacts of immigration is sometimes clouded by misperception. Two benefits that are sometimes attributed to immigration, despite mixed or poor evidence to support them, are that:

- immigration is an important driver of per capita economic growth
- immigration could alleviate the problem of population ageing.

### **Immigration and real incomes**

Proponents of a high migration intake naturally focus on the positive effects on Australia's gross domestic product. By adding to the total supply of labour, migration naturally increases the aggregate size of our economy. But, this provides little insight into the question of what happens to *per capita* incomes and, in particular, the incomes of the existing population.

#### *Labour market effects of migration*

The impacts of migration on wages in the short to medium term are largely dependent on whether immigrant workers are substitutes or complements for local workers. The former would mean that immigrants add to the supply of labour, relative to other factors of production, leading to a decline in wages. The latter could arise if immigrants possessed personal or professional attributes absent in the local workforce, and could mean that immigrants increase the productivity, and hence wages, of the local population. The evidence is mixed (PC 2011f), possibly indicating that both forces are present to some degree.

In the longer run, growth in labour supply would likely encourage increased investment in capital, and capital accumulation would, in turn, raise the productivity of labour and mitigate any initial adverse effects on wages.

Ultimately, the net impact of immigration on the wages of the existing population is an empirical matter, depending on the size and composition of immigration flows, the structure of the economy, and the timeframe of analysis. Some international and Australian studies have found small positive, and some small negative effects on the *average* wages of local workers (PC 2011f).

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### *Other potential effects on average incomes*

Because immigration makes labour more abundant relative to the existing stock of capital and land, it tends to increase the returns to the latter at the expense of labour. Notwithstanding this redistribution, in a seminal paper on the topic, Berry and Soligo (1969) showed in a simple model that the increase in returns to capital and land would exceed the fall in the wages of local workers, generating the so-called ‘migration surplus’ for the existing population. International research (Borjas 1995; Acemoglu 1998) shows that the migration surplus is greater for a skilled migrant intake, because skilled immigrants can drive technological change and also generally tend to enhance the productivity of existing capital more than their unskilled counterparts.

The magnitude of the migration surplus available to residents will also be influenced by foreign ownership of capital. Around 28 per cent of Australia’s capital stock is foreign owned (ABS 2006), so some of the income redistributed from local workers to owners of capital would flow to foreigners (after tax).<sup>1</sup>

Another important consideration for incomes of existing residents is whether immigrants are net contributors to, or recipients of, the services and benefits provided by governments (Chiswick in PC 2011f). In Australia, most immigrants are net contributors to fiscal balances over their lifetimes, with skilled immigrants making the greatest contribution (PC 2011f). This is primarily because immigrants tend to be young adults and enter the labour force soon after arrival, compared to native-born Australians who are net recipients of government services early in their lives.

As well as affecting wages and employment, immigration may change the composition of Australia’s output. For example, an increase in the number of predominantly skilled immigrants shifts production towards goods and services that are relatively intensive in this type of labour. Such changes mitigate any effects of immigration on wages and on the returns to other factors of production (Dustmann et al. 2008).

Increased immigration, and population growth generally, may also enable greater economies of scale or density. Key areas with the potential for scale effects are government services, such as defence and public administration, and the provision of infrastructure such as transport and communications (PC 2006i). Economies of density may also arise from reduced transaction costs, greater specialisation in production, and information spillovers for firms and workers located in close

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<sup>1</sup> That said, foreign-owned capital is also part of Australian portfolios, including superannuation, and therefore still makes some contribution to Australian incomes.

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proximity. However, the evidence on economies of scale is generally inconclusive, both because the scale effects are difficult to ascertain and because the role of immigration in the exploitation of such effects is unclear (PC 2006i).

By the same token, there are also likely to be some scale or density *diseconomies*. For example, Infrastructure Australia (2011) reported that the cost of providing new infrastructure is rising faster than the rate of inflation — in part, because costlier construction options such as tunnelling for new roads, now need to be adopted in the large cities.

### *Negative effect of ‘economic distortions’*

Any community benefits that result from immigration (and population growth generally) may be reduced, or any losses exacerbated, where markets do not function well. This can arise for several reasons. ‘Externalities’ may arise when additional people generate adverse impacts on others, without facing the associated costs of their actions. For example, population growth may put pressure on the environmental or urban amenity of the existing population.

Distortions may also stem from impediments to geographic mobility, and barriers to labour market entry, such as inconsistent or unduly restrictive occupational licensing. For example, the Commission (PC 2006i) has previously found that arrangements for assessing and recognising migrants’ skills were complex and sometimes led to inconsistencies, and that potential migrants were often poorly informed about the processes. These barriers could result in their unemployment or underemployment and sub optimal use of their skills. A number of improvements were suggested, including:

- moving towards a more uniform, national approach to occupational registration and licensing
- better dissemination of information on skills assessment and recognition
- re-evaluating and possibly broadening assessment criteria so as not to artificially exclude migrants from occupations.

Industry assistance for less productive activities, that impedes the efficient allocation or re-allocation of resources, can be another constraint to fully realising the potential economic benefits from immigration. This is particularly relevant in the context of the current structural pressures from the mining boom — referred to as the ‘two-speed’ or ‘patchwork’ economy — and the attendant calls to assist industries that are under pressure from the appreciating exchange rate (Banks 2011). As has long been recognised in the economic literature on the subject, government assistance to counter structural pressures can simply increase the adjustment burden

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for other industries (Gregory 1976). More fundamentally, in the context of the current conditions, such policies would prevent Australia from capitalising on the benefits of the boom.

Some have argued for growth in immigration to ease wage growth and alleviate pressures on other industries. However, general immigration is a blunt tool for ameliorating industry-specific labour shortages (targeted immigration directed at the expanding sectors would be more effective). Indeed, if immigration augmented the supply of labour to protected sectors, resulting in their expansion relative to unprotected ones, it could magnify the potential costs of the existing distortions.

Thus immigration in the presence of such distortions may result in lower real incomes. In some cases — particularly where there is a gap between market prices and non-market or ‘social’ values — measured GDP per capita may still rise, but there may be a decline in other components of community wellbeing.

### *Some conclusions*

Many of the above factors are difficult, if not impossible, to quantify, so any economic modelling would only provide an approximation of the true impacts of immigration. Previous Commission modelling found that a 50 per cent increase in skilled migrant intake from 2004-05 would reduce the average incomes of the existing population by 0.1 per cent by 2020 (PC 2006i). However, the modelling did not capture all of the effects on net fiscal balances, and did not consider possible scale and agglomeration effects, externalities or social impacts.

In its third Intergenerational Report, the Treasury (2010c) estimated that an increase in net overseas migration of 30 000 per year (over a base-case scenario of 180 000) would lead to a 0.02 percentage point increase in per capita real GDP growth over the projection period (to 2049-50). While this modelling did not estimate the net effect on the incumbent population, the result is consistent with the Commission’s findings and those of various international studies, that the net effects are likely to be small.

This is not really surprising. The flow of migrants, even at recent more elevated levels, is relatively small when compared to the stock of the existing population. More importantly, as discussed above, the forces that determine effects on the incomes of the existing population tend to offset each other, and some wash out in the long run.

This is not to deny that net effects can mask important consequences for individuals. Some local workers in professional occupations could suffer from

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declining wages as a consequence of an increasing intake of skilled immigrants. Conversely, some workers in lower-skill occupations, such as some hospitality and retail workers and labourers, could experience a relative increase in wages. Many researchers (for example, Chiswick in PC 2011f) have noted the tendency of skilled immigration to reduce income inequality in the destination country. And as noted earlier, some owners of capital, in particular land, would see their incomes rise as well.

Immigration would also affect the output mix and production technologies, driven on both the supply side (in response to the increase in labour supply) and the demand side (due to an increase in aggregate demand and any differences in the tastes and preferences of immigrants). Such changes would likely have implications for relative prices of consumption, investment and government goods and services. Individuals and groups may in turn be made better or worse off as a result of these price changes, depending on their preferences and consumption patterns.

In sum, the net impacts of immigration on the average incomes of the existing population are likely to be small, though not evenly distributed across Australia's population. There is also potentially significant downside resulting from existing policy and economic distortions.

## **Migration and ageing**

Australia's population has been progressively ageing, and this will continue. Between 1901 and 2009, the proportion of people aged 65 and over has grown from 4 to 13 per cent, and according to the Treasury's (2010a) projections, it is set to reach nearly 25 per cent by 2050. An ageing population results in a higher 'aged dependency ratio' (the ratio of those aged 65 years and above to those aged 15–64 years) and poses significant economic and fiscal challenges (PC 2005b). Increased migration is often suggested as a solution.

Immigrants, being typically younger on arrival than the existing population, could alleviate the ageing pressures in the short run (PC 2005b). However, several studies show these reductions are small for most plausible immigration levels. For example, an increase in annual net migration from 150 000 to 300 000 would lower the proportion of those aged 65 or over by less than 3 percentage points by 2044-45 (PC 2005). More importantly, any effect would be short lived. This is because immigrants themselves age, and progressively higher levels of migration would be needed to sustain the current age structure into the future. For example, it has been estimated that, to maintain the age structure of 2003-04 in 2044-45, annual migration during that period would need to be above 3 per cent of Australia's

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population, leading to a population of over 100 million by the middle of this century (PC 2005b).

*Addressing the consequences of population ageing may be more effective*

The Commission has addressed some of the key policy challenges of an ageing population in its 2005 publication, *Economic Implications of an Ageing Australia* (PC 2005b). Rather than pursuing policies that aim to affect population directly (migration and fertility), the Commission found that it might be more effective to pursue policies that:

- promote economic growth through increased labour supply and productivity, thereby raising incomes and government revenues
- seek to increase the cost-effectiveness of government-provided services particularly health and aged care, so that the costs of population ageing are more affordable.

International comparisons reveal that there is scope to improve the participation rates of some segments of the population, including women over 45 and older Australians of both genders (PC 2005b; Gilfillan and Andrews 2010). This suggests gains from removing policies that distort incentives to retire or remain outside the workforce.

Commission research has also reaffirmed that productivity and workforce participation increases with higher levels of human capital (Forbes et al. 2010; Laplagne et al. 2007) and, in particular, improved literacy and numeracy (Shomos 2010).

Ultimately, wide ranging productivity-enhancing reform, covering areas such as provision and use of economic and social infrastructure, industry policy, labour markets, and general regulatory burdens, would improve Australia's ability to meet the costs of an ageing population (PC 2005b).

Fiscal pressure from the costs of health and aged care can be relieved by policies that manage service costs. Governments as regulators, purchasers and providers, have substantial capacity to affect the cost effectiveness (and productivity) of these services. In addition, fiscal pressure can be alleviated by facilitating a change in the balance of public and private contributions in these areas.

The 'Blue Book' — produced each year by the Steering Committee for the Review of Government Service Provision — shows variations in the performance of health care between jurisdictions and between parts of the system, which suggest

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significant scope for improvement. In the area of aged care, reforms suggested by the Commission, would promote cost effectiveness by allowing more consumer choice between providers (SCRGSP 2011a). Furthermore, private savings such as superannuation, housing equity and insurance could be utilised to broaden the funding base for these services (PC 2011a).

It would also be important to address any existing policy-related distortions in the provision of age-related services, which could be exacerbated by growing demand for these services (box 1.2).

**Box 1.2 Distortions in the provision of aged care services**

In its report, *Caring for Older Australians*, the Commission found evidence of a mismatch between what is offered by Australia's system of aged care and what older people want. For example, there was high unmet demand for community care packages.

The Commission proposed the progressive relaxation and eventual removal of supply-side limits on bed licences, community care packages and other services. It also proposed that the current distinctions between residential low and high care, and between ordinary and extra-service status be removed. Removing these restrictions would improve the responsiveness of the market for aged care services to consumer preferences, as well as create incentives for providers to innovate and to respond to demand more generally.

*Source:* PC (2011a).

## **Policies for sustainable outcomes**

Much of the policy discussion has focused on addressing the potentially adverse effects of population growth on urban amenity, the natural environment and social cohesion.

In many cases, population growth will not be an exclusive (and in some cases, not even the main) cause of observed problems. Some may be existing or emerging problems — arising out of persisting market failures or policy distortions — which are magnified by population growth. Resolving those at their source can often produce 'no regrets' outcomes, providing gains to the existing population regardless of the rate of population growth, while also increasing Australia's 'absorptive' capacity. But this need not always be the case. Even efficient policy settings may still involve some negative impacts on incumbents. According to Pincus (2011, p. 47):

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What these policies can do is ... constrain the negative externalities to their optimal sizes — they do not guarantee that the existing population will not suffer a disadvantage.

## **Planning sustainable cities**

Roughly three-quarters of Australia's population now reside in the 18 cities with 100 000 or more residents (PC 2010f) and this is where most of the future population growth is expected to occur. Many of the key policy challenges of population growth, therefore, relate to preserving or improving urban amenity.

### *Importance of market signals*

The formation and growth of cities and, more broadly, the geographic location of population growth, is influenced by a multitude of dynamic market forces. Some of these are 'centripetal' — reflecting the potential economic and social benefits to individuals and businesses from agglomeration, for example, due to reduced transaction costs. Some are 'centrifugal' — reflecting the potential costs, such as increased congestion. Technological changes, evolving consumer preferences, and various external forces, such as the current natural resources boom, also influence the location of Australia's population growth.

Those forces constitute signals for welfare-enhancing individual decisions on where to live and work. The consequences of those decisions are evident in the substantial internal migration noted earlier. Policies that attempt to counteract those forces would undermine this process and its potential benefits. And past experience indicates that policies aimed at directing the population growth to particular regions or seeking a more even geographic distribution face great difficulties (PC 2011f).

In this context, an appropriate role for governments is to address, where feasible, any significant market failures distorting individual choices and to facilitate flexibility and adaptability, by removing the regulatory impediments to population movement.

### *Managing the supply side*

Population growth leads to a higher demand for infrastructure, housing and various essential services and products, such as water. Where there is an inadequate response in supply, it can lead to rising prices or (in some cases) increased pressure to ration services or reduce service quality. Accordingly, some of these demand side pressures can be alleviated through improved management of the supply side.

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### *Urban water — low-cost supply options*

One area subject to substantial institutional and regulatory constraints is the supply of urban water (PC 2011c). Of those constraints, the bans on urban–rural water trade, in place in several jurisdictions, may have been the most inefficient, particularly when viewed in the context of governments committing to high cost supply augmentation options. For example, the Port Stanvac desalination plant currently in development in South Australia is expected to cost \$1.83 billion to build and involve substantial running costs of \$0.5–\$1 per kilolitre of water, for an expected annual production of 100 gigalitres. In comparison, acquiring a similar volume of water through rural water entitlements could have cost under \$200 million and would likely involve lower operating costs. Recycling for planned indirect potable use is another water supply option currently prohibited in New South Wales, Victoria and South Australia without a transparent analysis of its costs and benefits.

### *Economic infrastructure — sustainable funding arrangements; reducing red tape; more flexible planning*

The fiscal challenges in delivering new infrastructure programs are mounting rapidly. In part, this is due to a growing appetite for spending on new projects.<sup>2</sup> Equally important is the fact that much of the existing and proposed infrastructure is not backed by appropriate funding arrangements. Many past investments in infrastructure have been shown to be commercially unsustainable, with a majority of government-owned infrastructure service providers not achieving a rate of return necessary for efficient management of capital (PC 2008o). This could reflect poor investment decisions or investments that produce significant (unpriced) social benefits (with the latter requiring explicit or implicit subsidisation). The Commission has outlined guiding principles for investing in public infrastructure, including the need for decisions to be guided by rigorous cost–benefit analysis (PC 2008o).

Infrastructure Australia (2011) noted that there was a ‘profound disconnect’ between the governments’ (and public) desire for improved infrastructure services and their willingness to pay, whether through higher user charges or greater taxes.

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<sup>2</sup> For example, since mid-2008 Infrastructure Australia has received proposals for urban transport projects that in total would cost well over \$120 billion. Until the last few years, Australian Government’s transport associated costs have typically been less than \$3 billion per year (Infrastructure Australia 2011).

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The public and private provision of infrastructure is also affected by various policy constraints. Infrastructure Australia (2011) identified several areas for reform including delays in environmental assessments, inflexible planning requirements and insufficient competition. Chan et al. (2009) observed that the private sector has a major role in future infrastructure provision and more could be done to facilitate a regulatory environment conducive to private investment.

A key issue for public provision of infrastructure (particularly for projects with long lead times) is the need for governments to *anticipate* the future needs of a growing population in the face of uncertainty about future rates and location of growth, as well as other factors, such as changing tastes, technology and climate. As a result, any large-scale public investments run the risk of being based on the ‘wrong’ predictions about population growth. This suggests a need for greater utilisation of adaptive management or ‘real options’ approaches in planning and provision. Adjusting infrastructure capacity in small increments over shorter time frames, for example by implementing projects in stages, would improve flexibility to respond to new information (Arnott in PC 2011f). Getting potential projects through the early preparatory stages without committing to implementation is another approach (Cook in PC 2011f). The Commission has recently estimated that failure to implement a real options approach in water infrastructure investments for Melbourne and Perth could cost the community around \$1.1 billion over a 10 year period (PC 2011c).

### *Supply of urban land — improving planning systems*

While Australia is not facing a physical shortage of land, the supply of land for development (whether via infill or greenfield development) is tightly regulated, at both the state and local government level. As well as constraining the aggregate supply of land, these controls often result in significant project delays. A Commission survey of greenfield residential developments across Australia’s five largest cities showed that it can take 10 years to complete a subdivision of land. Key contributors to delays are the processes for re-zoning and structure planning, which are currently not subject to statutory time limits in most jurisdictions (PC 2011d).

More generally, the impact of population growth on urban amenity will, in large part, depend on ensuring that Australia’s planning systems are responsive to community preferences, that they provide flexibility in the face of uncertainty about the future patterns of growth, and are underpinned by sound governance structures. To this end, the Commission has identified several leading practices through its benchmarking work (box 1.3).

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### Box 1.3 **Leading practices in planning systems**

The Commission's recent benchmarking study on *Planning, Zoning and Development Assessments* identified the following model practices for Australia's planning systems.

- Early resolution of land use and coordination issues
  - Determine as much planning policy as possible early in the planning-to-approval chain and obtain commitments to undertakings.
- Engaging the community early and in proportion to likely impacts
  - Engaging the community more fully in developing strategic land use plans and subsequent changes improves community buy-in. Greater clarity around community preferences, and explaining plans in terms of optimising the overall community welfare is likely both to gain greater acceptance and provide more certainty to residents and businesses.
- Broad and simplified development control instruments
  - If the prescriptiveness of zones and allowable uses were significantly reduced, it would increase competition by allowing a wider range of businesses and developers to bid for the same land, better harness the market in allocating land to its most valued use, and cater much more easily for innovations in business and service delivery without requiring re-zoning.
- Rational and transparent allocation rules for infrastructure costs
  - Broadly, the appropriate allocation of capital costs hinges on the extent to which infrastructure provides services to those in a particular location relative to the community more widely.
- Improving development assessment and rezoning criteria and processes
  - Specifically, through linking development assessment requirements to their objectives, using risk-based approaches for assessing development projects, facilitating the timely completions of referrals and assessments of applications, facilitating access to relevant information, and providing transparent and independent alternative assessment mechanisms.
- Disciplines on timeframes
  - More extensive use of timeframes for planning processes would provide better discipline on agencies and give developers more certainty.
- Transparency and accountability in planning decisions.

Source: PC (2011d).

### *Managing the demand side — the role of pricing*

Population growth can exacerbate any existing distortions in consumption arising from inadequately priced natural resources or infrastructure services. In many cases, improved pricing will be the most appropriate policy response.

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Consumption of urban water is one example where excess demand is typically managed through water restrictions and prescriptive conservation measures, at a significant cost to the community. Commission economic modelling estimated that stage 3a restrictions in Melbourne reduced community welfare by \$420–\$1500 million over a 10 year period, compared to a volumetric price (PC 2011c).

On the other hand, utilising pricing to reduce the potential costs of increased transport congestion from a growing population may be problematic. Congestion arises when road users do not have to take into account the cost (such as increased travel time or pollution) they impose on other users.

In theory, a congestion charge that varies with the time and location of travel, can lead travellers to ‘internalise’ the additional costs they impose on other road users, and ensure that those who travel on roads during peak times are those who place the highest value on doing so.

However, there are significant practical difficulties in implementing an efficient charging regime. One potential problem is the risk of setting the charge too high, based on the erroneous (but commonly made) presumption that free flow conditions are the optimal outcome. As observed by Ergas (PC 2011f), the objective should not be the pursuit of free flow conditions as an end in itself, but the provision and allocation of road space in a way that maximises social benefit. Thus, some congestion is likely to be efficient, because the costs of eliminating it (that is the trips forgone) would exceed the benefits. Furthermore, even in its crudest form, a congestion charging scheme is likely to involve substantial administrative costs, which must be balanced against the efficiency gains. In the generally well-regarded London scheme, which employs a simple flat charge, the operating costs were estimated to be large (50 per cent of the revenue raised) (Meyrick in PC 2011f).

Further challenges arise when the focus is on retaining or improving the wellbeing of the existing population. Even if efficient, congestion charging does not guarantee that the existing population would not suffer from population growth or the impacts of the policy itself. Indeed, some incumbents would be worse off due to paying more for using the road (taking into account travel time) or being forced to change their travel arrangements.

## **Addressing environmental impacts**

Population growth leads to higher aggregate consumption and production, which can have implications for the natural environment. Most concerns focus on:

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- unsustainable use of natural resources, many of which are finite and are either non-renewable or slow to regenerate
  - reduced food security
  - increased air and water pollution and greenhouse gas emissions
  - loss of biodiversity.

Some of those concerns are undoubtedly important, and may justify migration controls to address them, subject to two important caveats.

First, some of the above environmental impacts, such as the effect on food security, the depletion of internationally-traded natural resources and greenhouse gas emissions, are global in nature. The implications of Australia's population growth need to be seen in the context of this country's size, as well as the net effect on global population growth (immigration into Australia does not increase the global population). Australia accounted for only 0.3 per cent of the world's population in 2010 (World Bank 2010), and our share of world carbon dioxide emissions in 2008 was roughly 1.3 per cent (IEA 2010). Furthermore, national food security may not be a real concern even if world markets could not be relied on. Australia has traditionally been a significant *net exporter* of food — over the past five years the annual surplus in our food trade has averaged nearly \$17 billion (DAFF 2010).

Second, even for localised impacts such as pollution and loss of biodiversity, the relationship between population growth and environmental quality is not direct or exclusive. As noted by Henry (PC 2011f), improvements in technology, such as improvements in energy efficiency and in waste processing technologies, can ameliorate potential ecological pressures from increasing population (while cautioning that future innovation should not be relied upon to solve environmental problems). Consumption and production behaviour are also important — a community that is more highly oriented towards the production of services and other skill-intensive activities is likely to generate less pollution than a community that relies heavily on some types of manufacturing.

Property rights also play a crucial role in determining the environmental effects of demographic changes (Clarke in PC 2011f). The assignment of property rights can help to ensure that common-pool resources, such as fish stocks, are not depleted beyond the point where regrowth is possible. This is true regardless of the size of population.

Population growth may also be beneficial for the environment in some instances. If the costs of repairing legacy environmental problems are fixed, while the number of people benefiting from such actions increases, there will be economies of scale in

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environmental remediation (Clarke et al. 1990). More generally, as well as putting downward pressure on the ‘supply’ of the natural environment, population growth, through increasing the number of beneficiaries, puts upward pressure on the demand for it. The net effect may be negative or positive, depending on people’s preferences and institutional settings.

In sum, where there are concerns about environmental degradation, it is important to ascertain how direct the relationship between population growth and those problems is, and whether the relatively blunt option of more restrictive immigration controls would deliver a greater net social benefit than policies that target environmental problems at their source.

### **Maintaining social cohesion**

The social implications of population growth, and in particular, immigration, are clearly also an important policy consideration. There are several inter-related channels through which social impacts, positive and negative, can arise. These include the previously discussed impacts on the distribution of incomes and on urban amenity. Another important channel is the changing ethnic and cultural makeup of the population and implications for how diversity is understood and accepted.

The potential benefits of ethnic diversity are well documented. In the workplace, it can lead to higher productivity and wages, due to migrants having professional and personal attributes that complement the skills of Australian-born workers (PC 2011f). Cultural and ethnic diversity may lead to other benefits, such as expanded consumer choices, improved ability to trade and interact with other countries,<sup>3</sup> and social amenity benefits from living among people from other cultures (Metcalf in PC 2011f). Also, many Australians today are themselves recent immigrants, who could benefit from family reunion and the preservation and growth of their ethnic community within Australia.

Australia’s migration outcomes are generally considered a success story. Seven million people have settled in Australia since 1945 (Metcalf in PC 2011f), with a quarter of Australia’s current population being born overseas (PC 2010f). Surveys indicate a generally positive public perception of Australia’s migration history and outcomes, and Australia is ranked among the most receptive societies to immigration (Markus in PC 2011f).

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<sup>3</sup> However, Dolman (2008) found that while immigrants tend to increase the volume of trade with their country of origin, they also reduce trade with other countries. The overall effect is a change in the composition of trade rather than an increase in total volume.

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However, maintenance of past achievements should not be taken for granted. Public acceptance of immigration can vary over time and across communities. Attitudes to migrants tend to fluctuate, particularly according to unemployment levels and the extent to which the issue receives public attention (Markus in PC 2011f). Attitudes also vary among different groups and regions (Markus in PC 2011f).

One concern raised about immigration is that it may have an adverse effect on ‘social capital’. In his seminal contribution to the literature on this topic, Robert Putnam (2000) defined social capital as ‘social networks and the associated norms of reciprocity and trustworthiness’. Social capital may generate benefits to society through many channels, including by:

... reducing transaction costs, promoting cooperative behaviour, diffusing knowledge and innovations, and through enhancements to personal well-being and associated spillovers. (PC 2003, p. viii)

The concept is multidimensional and very difficult to measure. Typically, proxies are employed, including:

- measures of interpersonal trust and support for government welfare programs
- engagement in various voluntary activities requiring cooperation, such as community associations and clubs, and participation in charity.

In a widely-cited study of the effects of ethnic diversity in the United States, Putnam (2007) found that ethnically diverse communities had lower levels of interpersonal trust, civic engagement and perceived quality of life. There is limited evidence of similar outcomes in Australia. Leigh (2006) found that greater ethnic diversity was associated with reduced public support for government welfare programs. Markus and Arnup (2010, p. 58) found that in areas with high concentrations of immigrant residents, ‘the level of social capital and sense of security for long-time Australians were markedly lower’ than the national average.

However these findings need to be placed in perspective. Social capital can also be influenced by various other factors, such as education, socioeconomic status and local area safety (Stone and Hughes (2002) cited in PC 2003). And, as previously mentioned, attitudes about immigration can fluctuate over time, are influenced by political leadership and public discussion, and do not necessarily equate with observed behaviour.

Another issue that has been raised in Australia, as well as overseas, is whether immigration contributes to increased crime levels. The evidence on linkages between ethnicity and crime is not clear, due to the complexity of the determinants of crime and inadequate data. If anything, international evidence suggests that, in aggregate, immigrants are less likely to commit a crime than the native born

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inhabitants of a country. However, some ethnic groups tend to be over-represented in crime statistics overseas (Wortley 2009) and this is also the case for Australian data on incarceration rates, though the highest rates are for Aboriginal and Torres Strait Islanders (ABS 2010a, SCRGSP 2011b).

### *What role for policy?*

Broadly, the process of a migrant's social and economic integration is determined by his or her skills, preferences and incentives on the one hand and, on the other, the host country environment, which influences both the incentives and the constraints for the immigrant *and* the attitudes and 'adaptability' of the existing population.

Of those factors, migrant characteristics appear to be most amenable to direct policy control. Research indicates that higher levels of education, greater proficiency in the host country's language and younger age on arrival, facilitate integration within the host society (PC 2011f). Skilled immigrants also generally have more scope to select a country that suits their cultural and social preferences (PC 2011f). In this context, in addition to fulfilling its humanitarian obligations, Australia's more recent focus on young, skilled immigrants with good English skills is appropriate to our current economic and social circumstances.<sup>4</sup>

Considerations of the most appropriate or sustainable rate of intake are also relevant. To the extent that the answer depends on the adaptive capacity of the local population, Hatton and Leigh (2007) found that immigrant absorption was facilitated by the presence of established ethnic communities.

Various policies have also been adopted in Australia to improve the opportunities and incentives for immigrants to settle well within society and for the existing population to understand and accept newcomers. These include English language courses for migrants, and information campaigns to promote intercultural harmony. It is important to evaluate the effectiveness of such policies and initiatives. For example, some research from Europe indicates that major anti-racism campaigns failed to meet their objectives (PC 2011f).

It is also important not to lose sight of the inherent incentives for migrants and the local population to adjust, and therefore of the need to address any policy barriers to natural adjustment. For example, the OECD (2008f) observed that rigid labour market structures have contributed to the poor immigrant outcomes in France. The

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<sup>4</sup> Another notable recent development has been the growth of temporary immigration as a path to subsequent permanent residency (PC 2010f). In the face of initial information gaps confronting both prospective immigrants and host societies, such 'try before you buy' approaches can act as a screening mechanism with a potential to improve subsequent integration.

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‘openness’ to migrants of institutions conducive to human capital development, particularly schools, is also important. In most cases, immigrants become more part of the community and more accepted by local populations, the longer they stay in a country. And the second generation tends to be better integrated than their parents (PC 2011f). Australia’s experience to date has been positive in these respects and the challenge is to ensure that policy settings help sustain this into the future.

## **In sum**

Australia’s current and prospective demographic changes clearly present many challenges. These cover a range of policy areas and involve all levels of government. Good policy development processes will be essential to ensuring that the challenges are effectively managed. This will require evidence and analysis of the various impacts and trade-offs arising from population and immigration growth. It will also call for careful examination of the likely effects and interplay of the different policy options.

A number of policy implications arise from recent Commission work in this area. While focusing on future population targets may be of limited use to policy makers, the *rate* of population growth is an important consideration. How fast Australia’s population grows has direct implications for the environmental, urban and social amenity of existing residents. And immigration policy is the most effective mechanism for influencing the rate of growth. Further, it is clear that the composition of Australia’s migrant intake is important. Australian and international experience indicate that a focus on skilled migrants (while also meeting humanitarian obligations) is the most beneficial, both economically and socially.

It is also apparent that much can and should be done to improve Australia’s capacity to accommodate a growing and changing population. Policies that improve the flexibility, adaptability and overall efficiency of the economy would be warranted regardless of the rates of population and immigration growth. However, a sustainable approach to Australia’s population makes the case for such reforms more pressing.

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## 2 Review of Commission activities and performance

### **Some highlights from 2010-11**

- published reports on a range of important topics, including international carbon policies, aged care, disability care and support, wheat export marketing, rural research and development corporations, bilateral and regional trade agreements, and the vocational education and training workforce
- governments accepted many of the Commission's findings and recommendations, particularly on bilateral and regional trade agreements, upstream petroleum regulation and reform of the not for profit sector and indicated broad support for aged care and disability reports
- completed further stages of the review of regulatory burdens on business and the benchmarking study on business regulation
- hosted a roundtable conference on sustainable population and immigration
- released inaugural Indigenous Expenditure Report and a range of reports on National Agreement performance indicators
- completed a variety of supporting research, including papers on population and migration, childhood obesity, the labour force participation of women over 45, intangible assets and productivity growth, and the links between literacy and numeracy skills and labour market outcomes

### **Some areas of focus for 2011-12**

- complete current inquiries and government-commissioned research on the Australian retail industry, urban water, the economic regulation of airport services, the workforce in schools and early childhood development, the economic impacts and benefits of COAG's reform agenda, climate change adaptation, and export financing
- continue the inter-jurisdictional benchmarking of business regulation and finalise a study on identifying areas for regulation reform and methods for evaluating reform outcomes
- provide ongoing secretariat assistance to the Steering Committee for the Review of Government Services, including further implementation of COAG review recommendations
- prepare for new role in undertaking industry reviews and other functions as part of the Government's Clean Energy Future Plan

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## Overview

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

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

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

The outcome objective designated for the Productivity Commission is:

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

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

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

The breadth and volume of the Commission's work are indicated by the reports published in 2010-11 (box 2.1). They included government-commissioned inquiries and studies on such diverse topics as international carbon policies, aged care, wheat export marketing, bilateral and regional trade agreements, rural research and development corporations and the vocational education and training workforce.

The diversity of topics in the Commission's work program is also apparent in the range of its ongoing work. This includes inquiries and studies on the retail sector,

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## Box 2.1 Commission publications in 2010-11

### ***Public inquiries (draft reports)***

Rural Research and Development Corporations

Disability Care and Support

Caring for Older Australians

Australia's Urban Water Sector

### ***Public inquiries (final reports)***

Wheat Export Marketing Arrangements

Caring for Older Australians

Rural Research and Development Corporations

### ***Government-commissioned research studies (draft reports)***

Bilateral and Regional Trade Agreements

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

Vocational Education and Training Workforce

### ***Government-commissioned research studies (final reports)***

Impacts and Benefits of COAG Reforms: Reporting Framework

Vocational Education and Training Workforce

Annual Review of Regulatory Burdens on Business — Business and Consumer Services

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

Bilateral and Regional Trade Agreements

### ***Chairman's published speeches***

Successful Reform: Past Lessons, Future Challenges

### ***Annual report suite of publications***

Annual Report 2009-10

Trade & Assistance Review 2009-10

### ***Submissions***

Submission to the Rural Research and Development Council

Submission to the Taskforce on the Sustainable Population Strategy for Australia

### ***Conference/workshop proceedings***

A 'Sustainable' Population? — Key Policy Issues

### ***2010 Richard Snape Lecture***

The Challenges for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective (Dr Mari Pangestu)

(continued next page)

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**Box 2.1 (continued)**

**Performance reporting**

Report on Government Services 2011: education, justice, emergency management, health, community services and housing

Report on Government Services 2011: Indigenous compendium

National Agreement performance information 2009-10: National Healthcare Agreement

National Agreement performance information 2009-10: National Affordable Housing Agreement

National Agreement performance information 2009-10: National Disability Agreement

National Agreement performance information 2009-10: National Indigenous Reform Agreement

National Agreement performance information 2010: National Agreement for Skills and Workforce Development

National Agreement performance information 2010: National Education Agreement

Data gaps in education and training National Agreement reports: 2009

National Partnership Agreement on the Elective Surgery Waiting List Reduction Plan: Period 2 performance report

National Partnership Agreement on the Elective Surgery Waiting List Reduction Plan: Period 3 performance report

National Partnership Agreement on Essential Vaccines: 1 April 2009–31 March 2010 performance report

National Partnership Agreement on Essential Vaccines: 1 April 2010–31 March 2011 performance report

2010 Indigenous Expenditure Report

Expenditure Data Manual: 2010 Indigenous Expenditure Report

Service Use Measure Definitions Manual: 2010 Indigenous Expenditure Report

**Commission Research Papers**

Population and Migration: Understanding the Numbers

**Staff working papers**

Investments in Intangible Assets and Australia's Productivity Growth: Sectoral Estimates

Childhood Obesity: An Economic Perspective

Links Between Literacy and Numeracy Skills and Labour Market Outcomes

Labour Force Participation of Women Over 45

urban water, airport regulation, and the schools and early childhood education workforce.

The Commission continues to assist all Australian governments and COAG through a mix of standing research responsibilities and specific projects. In the current year, it continued to provide secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of reporting annual performance information on National Agreements to the COAG Reform Council, and provided secretariat, research and report preparation services to the Indigenous Expenditure Steering Committee in respect of the first report on

expenditure on services to Indigenous Australians. (The ROGS Steering Committee has since assumed responsibility for this report.) Specific projects undertaken to assist policy development across jurisdictions in the year included the study on benchmarking business regulation in the areas of planning, zoning and development assessments, to assist the work of the COAG Business Regulation and Competition Working Group, and the inquiry into Australia’s urban water sector to assist COAG in advancing urban water reforms.

## Year in review

The Productivity Commission’s role in informing public policy development and community understanding on key issues influencing Australia’s productivity and living standards is pursued through four main work streams. The principal developments in these activities during 2010-11 are outlined below.

### Public inquiries and other commissioned studies

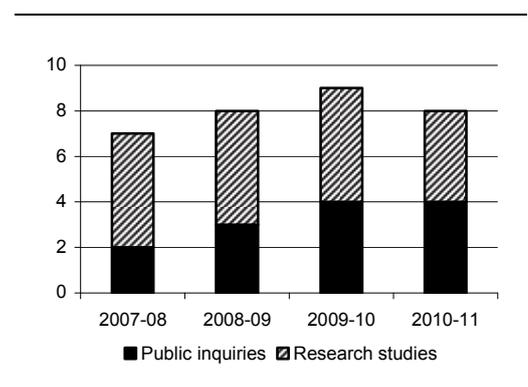
The Commission had seven public inquiries and nine commissioned research studies underway at some time during 2010-11. In addition to completing nine references from the previous year, it received seven new projects, maintaining the breadth of policy coverage evident in recent years (figure 2.1).

The Commission completed three inquiries commenced in the previous financial year: on wheat export marketing arrangements, rural research and development corporations and aged care. A fourth inquiry, on disability care and support, was also commenced in the previous financial year and completed in July 2011.

Three new inquiries commenced in 2010-11.

- An inquiry into Australia’s urban water sector commenced in July 2010. It considered opportunities for efficiency gains in the structural, institutional, regulatory and other arrangements that govern the sector. In addition to identifying possible options for reform in the sector, the Commission was also asked to develop implementation plans for these options. This includes practical actions that the Commonwealth, state and territory governments and local councils can undertake to implement options for reforms, including any transitional arrangements; priority areas where greatest efficiency gains are

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



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evident and where early action is practicable; and quantitative and qualitative indicators for efficiency gains in the urban water and waste water sectors.

- In December 2010 the Assistant Treasurer asked the Commission to conduct an inquiry into the current economic regulation arrangements for airport services. In undertaking the inquiry, the Commission will make recommendations in relation to the future regulation and monitoring of services and the scope and mechanisms for greater transparency and accountability in airport infrastructure provision and services.
- In December 2010 the Assistant Treasurer, the Minister for Broadband, Communications and the Digital Economy, the Minister for Home Affairs and Justice and the Minister for Small Business announced that the Commission would undertake an inquiry into the economic structure and performance of the Australian retail industry. The Commission was requested to examine a range of issues including the current structure, performance and efficiency of the sector; drivers of structural change; broader issues which are contributing to an increase in online purchasing by Australian consumers; sustainability and appropriateness of the current indirect tax arrangements; and any other regulatory or policy issues which impact on structural change in the sector.

During 2010-11 the Commission finalised five government-commissioned research studies commenced in the previous year:

- a twelve month study on bilateral and regional trade agreements, which was released in November 2010
- the fourth stage of the regulatory burdens on business stream of studies, looking at business and consumer services, which was released in October 2010
- the fourth stage of the benchmarking study on business regulation, on planning, zoning and development assessments, which released its final report in April 2011
- an initial framework report on the impacts and benefits of COAG reforms, which was released in December 2010
- a study of the vocational education and training workforce, which commenced in April 2010 and was completed in April 2011.

The Commission also received a request for, and completed during the year (in six months), a research study documenting and quantifying carbon policies in Australia and other selected countries.

A further three new research studies were started during the year which are ongoing: an extension of the regulatory burdens studies; and the second and third

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stages of a series of studies on the education and training workforce, looking at the workforces in early childhood development and schools.

Further information on public inquiries and commissioned research studies undertaken during 2010-11 and government responses to the Commission's reports is provided in appendices C and E.

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

The Commission has provided secretariat services to the Steering Committee for the Review of Government Service Provision since the Review's commencement in 1993. The collaborative efforts of more than 80 Commonwealth, State and Territory government agencies contribute to the Steering Committee's three major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage report; and collating performance data under the Intergovernmental Agreement on Federal Financial Relations for the COAG Reform Council.

### *Report on Government Services*

The *Report on Government Services 2011* was the sixteenth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning early childhood, education and training, health, justice, community services, emergency management, housing and homelessness. The services covered in the 2011 Report collectively account for \$150 billion of government recurrent expenditure, equivalent to over 12 per cent of gross domestic product. A separate *Indigenous Compendium* was also published, providing a more accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review strives for continuous improvement. The 2011 Report included new indicators for primary and community health, health management issues, aged care services, services for people with disability, and protection and support services, and improved reporting on aspects of children's services, school education, vocational education and training, police services, court administration, emergency management, public hospitals, and housing.

At its meeting on 7 December 2009 COAG agreed to the recommendations of a review of the RoGS by a Senior Officials and Heads of Treasuries Working Group. The review examined the ongoing usefulness of the RoGS to its government, non-government and community stakeholders. Developments arising from the review will be implemented over the next three editions.

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The review noted:

- the central role of the RoGS in reporting comparative information on government performance
- the RoGS' original role as a tool for government had been complemented by a public accountability function
- the preponderance of submissions to the review were very supportive of the RoGS, but noted scope for improvement in the comparability, timeliness, and quality of performance data
- some submissions suggested the RoGS' scope be expanded to include government services that are not currently reported.

### *Overcoming Indigenous Disadvantage: Key Indicators*

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

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

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

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

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

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### *National Agreement reporting*

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

COAG has requested that the Steering Committee provide to the CRC the agreed performance information for the CRC to undertake its assessment, analytical and reporting responsibilities. The IGA states that the Steering Committee's role is 'overall responsibility for collating the necessary performance data' for National Agreements. The IGA further specifies that 'the Steering Committee will comment on the quality of the performance indicator data using quality statements prepared by collection agencies'. The Steering Committee has also collated data for selected National Partnership Agreements to assist the CRC. In addition, the Chair of the Heads of Treasuries Committee on Federal Financial Relations (HoTs Committee) has requested the Steering Committee to bring together information on data gaps in the performance reporting framework, and report back to the HoTs Committee.

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

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

The third cycle of the first tranche of reporting, delivered to the CRC on 30 June 2011, included:

- specifications for all performance indicators in the National Education Agreement and the National Agreement for Skills and Workforce Development
- specifications for education and training performance indicators in the National Indigenous Reform Agreement
- data for the 2010 calendar year (or most recent reporting year available).

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

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- specifications for all performance indicators in the National Healthcare Agreement, National Affordable Housing Agreement, National Disability Agreement and the National Indigenous Reform Agreement
  - data for the reporting period of the 2009-10 financial year (or most recent reporting year available).

The Steering Committee was asked by the Heads of Treasuries Committee to draw together information on data gaps in the National Agreement performance reporting. The Steering Committee's report provided an update on data gaps in the National Education Agreement and the National Agreement for Skills and Workforce Development, including:

- performance indicators that do not provide adequate/appropriate measures for reporting against associated outcomes
- performance indicators where no data are available, including for the baseline year
- performance indicators where there are issues of statistical reliability.

Data collation for selected NPs draws on the direct wording of those agreements and the CRC's associated performance matrix. The four Steering Committee reports covered two NPs, Elective Surgery and Essential Vaccines.

### *Indigenous Expenditure Report*

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

The inaugural *Indigenous Expenditure Report* was released on 28 February 2011. It provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on Indigenous specific services as well as the estimated Indigenous share of mainstream services. Data were for 2008-09. The *Report* was supported by two companion manuals which documented in detail the methods, data sources and interpretation issues underpinning the estimates.

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

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A supplement to the *2010 Indigenous Expenditure Report*, which provides estimates of Australian Government expenditure by state and territory, was released on 15 September 2011. This supplement complements the 2010 Report and enables the estimation of the total government resources committed in each state and territory.

### **Competitive neutrality complaints activities**

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

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) operates as a separate unit within the Commission. Its function is to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received six formal written complaints in 2010-11. Details of the complaints and actions taken by the AGCNCO are detailed in appendix D.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2010-11, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

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

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

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

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

In 2010-11 the Commission's supporting research program covered a range of economic and social topics. This included work on productivity and its

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determinants; labour markets; population; and childhood obesity (box 2.1). Several papers connected to the Commission's statutory annual reporting requirements were also published.

Further information on the Commission's supporting research activities and publications in 2010-11 is provided in appendix F. This also details the 94 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research and performance reporting work (table F.1). The Commission briefed 38 international delegations and visitors during 2010-11, with a focus on the Commission's role and activities and related policy matters (table F.2).

## **Transparency and public consultation**

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

### **Open inquiry procedures**

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. During the course of its public inquiry activities in 2010-11, the Commission met with more than 360 organisations or groups, held 45 days of public hearings, and received around 2390 submissions.

The Commission has adapted its processes to suit the variety of research studies commissioned by the Government. These studies require less formal public interaction than inquiries, but the Commission nevertheless provides opportunities for participants or experts to comment on its analytic frameworks and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 350 submissions to these studies in 2010-11, with many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

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

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### **Box 2.2 Participative and transparent processes: two examples**

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

- In conducting its inquiry into *Disability Care and Support*, the Commission embarked on an extensive round of informal consultations to help it understand the key issues and to become aware of the most appropriate ways of engaging with people with different disabilities. In May 2010, the Commission released several inquiry documents in different formats, and an online Auslan presentation, to help people and organisations provide their views to the Commission. These included a full issues paper; a short set of questions addressing the main issues for people wanting to provide a personal response based on their personal experiences (perhaps made in confidence); a short Auslan presentation of the key questions and a text version of the Auslan presentation which was placed on the inquiry website; and an Easy English version of the key issues was also made available. Accompanying this material was a circular that advised participants about the different means by which they could make their views known to the Commission.
- In conducting its benchmarking study on *Planning, Zoning and Development Assessments*, the Commission drew on submissions, as well as broad consultation with business, private sector developers and retailers, state and territory planning agencies, local councils and the wider community to identify those differences in state and territory planning systems that warranted benchmarking. The Commission also sought additional information and undertook additional consultation such as by surveying state and territory planning agencies, local councils, 'greenfield developers', retailers and a broad cross section of businesses and the community.

### **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.

In March 2011 the Commission held a Roundtable on the topic 'Sustainable Population? — Key Policy Issues'. Participants included government officials, academics, consultants and representatives of non-government organisations. Keynote addresses were presented by Professor Barry Chiswick from the Columbian College of Arts and Sciences, George Washington University, and Distinguished Professor Richard Arnott from the University of California, Riverside. Papers were initially made available on the Commission's website and the proceedings were subsequently published.

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

The Commission's Visiting Researcher Program seeks to attract established researchers with an outstanding research record in areas related to its priority research themes and activities. Visiting Researchers contribute to both the work and intellectual life of the Commission.

## **Research collaboration**

The Commission continued to participate in collaborative research projects with academic institutions in 2010-11. The projects involved:

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) to develop 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 variety of health policy changes (other partner organisations comprise the NSW Health Department, the Health Insurance Commission, the ABS and the AIHW)
  - a dynamic population microsimulation model, with the capacity to track 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 the ABS, Centrelink and ten Australian Government departments)
- the Australian National University on 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
- the University of New South Wales and the University of British Columbia (Vancouver) on tackling problems in productivity measurement in infrastructure, services and research and development (other partner organisations were the ABS and the Reserve Bank of Australia).

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

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

## **Research networks and linkages**

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

- The Commission's Chairman, Gary Banks, is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University. He is on the judging panel for the BHP Billiton/Reconciliation Australia 'Indigenous Governance Awards'. He also is a member of the speaker faculty for the Melbourne Business School's Public Policy Series. He is a National Fellow of the Institute of Public Administration Australia (IPAA) and a Fellow of Monash University. In 2010 he was elected a Fellow of the Academy of Social Sciences in Australia (ASSA).
- A number of Commissioners are also members of various advisory boards and committees, including university and non-profit organisations. For example, Robert Fitzgerald serves on the Queensland University of Technology's Centre for Philanthropy and Nonprofit Studies Advisory Board, and the Australian Catholic University Community Engagement Advisory Committee. Dr Wendy Craik serves on the Boards of the WorldFish Center and the Australian Rural Leadership Foundation. Louise Sylvan is Deputy President of the Council of the Medical Foundation of the University of Sydney, and also serves on the Board of the Diplomacy Training Program established by The Hon Jose Ramos Horta. Philip Weickhardt is currently Chairman of Earthwatch Institute, a not-for-profit organisation which contributes to scientific research on environmental issues. He is also on an advisory board for Anglo American in Australia, and does some teaching for Melbourne Business School in the executive education area. Dr Warren Mundy is currently the Deputy Chair of Airservices Australia and a member of the Joint NSW-Commonwealth Government Steering Group overseeing the development of the Aviation Strategic Plan for Sydney.
- 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 22<sup>nd</sup> East Asian Seminar on Economics was held in Beijing in June 2011. Commission research on productivity and the trade and investment effects of preferential trading arrangements has featured in previous seminars.

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- The Commission's Chairman and senior staff have also participated in the East Asian Bureau of Economics Research's 'Public Sector Linkages Project'. This project, involving representatives from leading policy research institutes throughout East Asia, held a series of international meetings concerned with the development of better institutional foundations for structural reform in countries in the region.
  - Staff members are also involved in a range of other research networking activities. For example, members of staff served on a range of bodies including the ABS Productivity Measurement Reference Group, the ABS Analytical Reference Group and the OECD Working Party on Industry Analysis.

### **Informing and communicating via the internet**

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

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

In the 12 months to June 2011, there were more than 265 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2010-11. The projects of most interest were the inquiries on aged care (68 129 requests), disability support (67 670 requests) and urban water (20 169 requests), and the research study on carbon emissions reduction policies (22 448 requests). Other heavily accessed web pages were for the 2010 and 2011 Reports on Government Services (18 328 and 20 293 requests, respectively) and the 2009

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Overcoming Indigenous Disadvantage report (17 815 requests). Speeches by the Commission's Chairman attracted more than 36 000 requests.

Even after an inquiry or research study is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 2009 inquiry on Australia's gambling industries received over 25 000 requests; the Commission's 2009 inquiry on Paid Parental Leave received over 11 500 requests; and the 2010 study of the contribution of the not-for-profit sector received over 16 000 requests.

The Commission's website received over 14 million file requests from external users in 2010-11 (figure 2.2).

## Feedback on the Commission's work

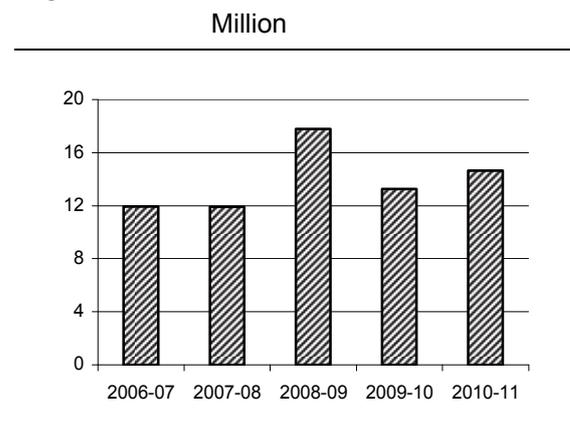
The Commission monitors reaction to, and seeks feedback on, its work in order to improve its performance and its contribution to public understanding and policy making. The results of past surveys were reported in previous annual reports and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the

financial performance of government trading enterprises and the quality and usefulness of its supporting research program. The rolling program of surveys complements the feedback received through comments and submissions on draft reports, position papers, workshop papers and the views expressed during public hearings and consultations on its research program.

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

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

Figure 2.2 Website hits



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opposition to, specific pieces of Commission analysis or advice. Nevertheless, the examples in box 2.3 illustrate the breadth of support for the Commission's contribution.

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

The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and the conduct of hearings. The number of participants providing feedback through these mechanisms nevertheless remains low: less than 50 respondents in total in 2010-11. Most of the feedback was positive. Feedback is in turn forwarded to authors, inquiry teams and management for consideration and action, where required.

## **Policy and wider impacts**

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

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

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

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.

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

During the year the Assistant Treasurer, the Hon. Bill Shorten, asked the Commission to undertake inquiries and studies on a range of topics, including inquiries into urban water, airport regulation and Australia's retail industry. In June 2011 he stated that the Commission would also be asked to conduct an inquiry into default superannuation funds prior to the introduction of the MySuper reforms in July 2013.

In November 2010 the Minister for Climate Change and Energy Efficiency, the Hon. Greg Combet, discussed the Commission's work on carbon pricing, stating:

I think we need to get as much rigour into that sort of analysis as possible and that's why we are going to the Productivity Commission to do it. (Combet 2010)

In July 2011, the Government announced several significant new tasks for the Commission as part of its *Clean Energy Future Plan*. This includes reviews of industry assistance under the Jobs and Competitiveness Program and the Coal Sector Jobs Package; reviews of the impact of the carbon price on industry; continued reporting on actions by other countries to reduce carbon pollution; and a review of fuel excise arrangements (Australian Government 2011a).

During the year COAG identified several further areas where Commission projects would assist it with its work, including a request by the Australian Government, with the agreement of COAG's Business Regulation and Competition Working Group, to examine the role of local government as a regulator; and a commitment to develop terms of reference for a future benchmarking review of regulation impact assessment processes.

The Federal Opposition proposed a number of tasks for the Commission during the year, including that it be reshaped as the Productivity and Sustainability Commission and inquire into and recommend future population policies; have its mandate broadened to include the regular consideration of immigration policy; conduct a comprehensive cost benefit analysis of the National Broadband Network; undertake an inquiry into foreign ownership of agricultural land in Australia; and undertake a comprehensive study of the economic consequences of the Murray Darling basin plan.

In its latest trade policy review of Australia, the World Trade Organisation stated:

Australia's trade policy framework continues to be characterized by an unusually high degree of transparency. This involves rigorous economic analysis undertaken by government institutions and independent advisory bodies (notably the Productivity Commission). (WTO 2011)

A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including defence procurement; public service costs; dairy market competition; flexible working arrangements; climate change adaptation; pharmacy ownership and location rules; private health insurance; taxation reform; and small business finance.

In its 2010 Economic Survey of Indonesia, the OECD suggested that Indonesia give further consideration to the creation of an independent productivity commission (OECD 2010d).

Details are provided in appendix C.

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## **Influence on government policy-making**

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

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

- In April 2011 the Australian Government released a Trade Policy Statement which provided detailed responses to the Commission's report on Bilateral and Regional Trade Agreements. It stated that:

The Productivity Commission's report into bilateral and regional trade agreements released in late 2010 has been closely considered in the preparation of this review, and its policy positions are highly consistent with the Productivity Commission's recommendations. (Australian Government 2011c, p. 16)

The Government accepted nine of the ten recommendations in the Commission's report. The Government agreed in part to the outstanding recommendation, but did not agree with the Commission's view that an independent and transparent assessment of the final text of agreements should be commissioned and published at the conclusion of negotiations, but before an agreement is signed.

- On 10 August 2011 the Australian Government provided an initial response to the Commission's report on Disability Care and Support (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' It also stated that:

In line with the Productivity Commission's recommendations, the Government, with the States and Territories, will start work immediately on building the foundations for reform. We will:

- Deliver an immediate, additional \$10 million, consistent with the PC recommendations, to support this technical policy work;
- Move to establish a COAG Select Council of Ministers from the Commonwealth, States and Territories to lead reform in this area at COAG next month;
- Take steps to establish an Advisory Group to the Select Council, led by Dr Jeff Harmer, to provide expert advice on delivering the foundations for reform and preparation for launch. (Gillard et al. 2011)

The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality

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standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.

- The Australian Government released a preliminary government response to the Commission's report on Rural Research and Development Corporations on 15 June 2011. The response stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission's recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.
- On 25 May 2011, the Hon. Martin Ferguson, Minister for Resources and Energy released the Commonwealth Government's response to the 2009 Productivity Commission Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector. The Government agreed to a large majority (25 of 30) of the recommendations made in the Commission's report.
- As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme introduced was closely based on that proposed in the Commission's final inquiry report on Paid Parental Leave, released in 2009. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government initially deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission. Subsequently, in 2011 the Government introduced provision for two weeks paternity leave in line with the Commission's recommendation.
- The Minister for Home Affairs and Justice, the Hon. Brendan O'Connor, and Minister for Trade, the Hon. Dr Craig Emerson, announced a response to the Commission's report on Australia's Anti-dumping and Countervailing System on 22 June 2011 (Australian Government 2011d). The Government agreed or agreed in-principle with 15 of the report's 20 recommendations. These covered a range of issues, including working groups to examine the close processed agricultural goods provisions; not adopting the practice of zeroing; updating actionable subsidies to align with the latest relevant WTO agreements; arrangements for Custom to seek extensions of investigation periods; the introduction of a 30 day time limit for the Minister to make decisions; adequate resourcing for Customs and Border Protection and the Trade Measures Review Officer; advice to the Minister in investigation reports of the details of comparable recent cases in other countries; consultation with the ABS regarding better access to import data; and a five-year review of proposed reforms. The

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Government did not accept the Commission's key recommendation concerning the introduction of a public interest test.

- The Australian Government released a response to the Commission's report *Annual Review of Regulatory Burdens on Business – Business and Consumer Services* on 13 September 2011 (Australian Government 2011e). The Commission's report made 18 recommendations, covering issues including government consultation, superannuation, rationalisation of legacy financial products, monetary thresholds applying to overseas investment in Australia and national registration of architects. The Government accepted or accepted in principle ten of the recommendations and noted eight recommendations.
- On 23 September 2011 the Government released a response to the Commission's report on wheat export marketing arrangements (Australian Government 2011f). The Government agreed in-principle with the Commission's recommendations to abolish the Wheat Export Accreditation Scheme, Wheat Exports Australia and the Wheat Export Charge on 30 September 2011, and remove the access test requirements for grain port terminal operators on 30 September 2014. However it proposed a more gradual, three-stage approach in transitioning to full market deregulation, involving:
  - a first stage introduction of a 'lighter touch' accreditation scheme between 1 October 2011 and 30 September 2012
  - removal in the second stage of Wheat Exports Australia and the Wheat Export Charge from 1 October 2012
  - introduction of full deregulation, with access issues governed by general competition law, in a third stage commencing from 1 October 2014.

In announcing the response, the Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig, stated that:

The Government supports the recommendations provided by the Commission and believes they will improve future wheat marketing arrangements. (Ludwig 2011)

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

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

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## Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2010-11 sittings of the *Federal Parliament*:

- 86 Members and 47 Senators referred to 48 different Commission reports or inquiries, or to the Commission's role in policy processes
- in over three-quarters of the 339 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 2 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on emissions reduction policies and carbon pricing, disability care and support, executive remuneration and aged care.

In addition, there were 70 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2010-11. The Commission was mentioned in the proceedings of 13 different committees, most prominently in proceedings of the Senate Standing Committee on Community Affairs; the Senate Standing Committee on Economics; the Senate Standing Committee on Environment, Communications and the Arts; the Senate Standing Committees on Rural Affairs and Transport; and the Joint Select Committee on Gambling Reform. The most frequent mentions were to the reports on gambling, disability care and support, and rural research and development corporations.

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

Some seventeen Parliamentary Library reports in 2010-11 referred to Commission inquiry and research reports, or to reports on government services (table C.2). This included the use of Commission outputs to inform discussion of legislation in such key areas as telecommunications, health policy, occupational health and safety and paid parental leave. Use of Commission outputs by the Australian National Audit Office is also reported in appendix C.

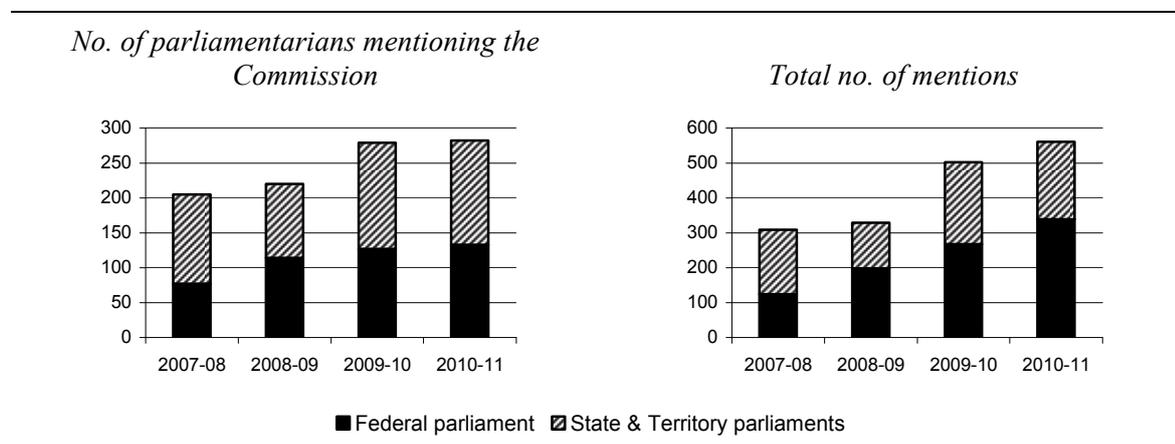
Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *state and territory parliamentarians*. During the 2010-11 sittings of the eight state and territory parliaments:

- 149 members referred to 44 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes

- in 68 per cent of the 222 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with only 2 per cent of mentions that were critical of a particular finding, report or Commission attribute
- the most frequent mentions were to the Report on Government Services, with the Commission's reports on consumer policy, disability care and support and gambling also featuring prominently.

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

**Figure 2.3 Mentions of the Commission in Australian parliaments, 2007-08 to 2010-11**



## Other indicators of policy impact

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

- use of Commission analysis during the year by the Prime Minister, Treasurer, Assistant Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers, including use of Commission reports on executive remuneration, emissions reduction policies and carbon prices, gambling, aged care and disability care and support
- the widespread use being made of the Report on Government Services by central and line government agencies, state Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
- the use made by the Commonwealth Treasury, COAG, state governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW, the National Health and Hospitals Reform Commission and others of a

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diverse range of Commission supporting research outputs, in particular its work on productivity analysis, health and aged care, climate change and rural and urban water use

- use of Commission outputs by key international agencies, including the OECD and the IMF.

One continuing indicator of the degree of interest in the Commission's inquiry and other work is the many invitations to give briefings and present papers to parliamentary, business and community groups and to conferences (table F.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, Western Australia and Victoria, and visits to other jurisdictions are scheduled throughout 2011-12. The Commission also responded to requests for briefings to visiting officials and delegations from South Africa, Singapore, Canada, New Zealand, Malaysia, China, Iraq, Indonesia, India, Chile, Bhutan, Mexico, Brunei, the OECD and IMF (table F.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2010-11, 41 editorials in seven major metropolitan newspapers drew on the findings or recommendations in 13 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on gambling, urban water and anti-dumping and the studies on international carbon policies and bilateral and regional trade agreements featured prominently.

The Commission rated an average of 393 mentions a month in electronic media and an average of 328 mentions a month in print media in 2010-11. The Commission's inquiries into disability and aged care and its study of international carbon policies received the most coverage. Indicators of the influence of Commission outputs during the year — its inquiry, performance reporting, competitive neutrality work and supporting research — are discussed more fully in appendix C.

## **Associated reporting**

Management and accountability information for 2010-11 is reported in appendix B. The audited financial statements for the Commission are contained in appendix H.

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

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

- *Trade & Assistance Review 2010-11*, which reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.

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# APPENDICES



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# A Recent developments in Australia's productivity

## Key points

- Over the last complete productivity cycle (2003-04 to 2007-08), as identified by the Australian Bureau of Statistics (ABS), Australian market sector multifactor productivity (MFP) declined by an annual average of 0.3 per cent.
  - Most market sector industries had lower average annual MFP growth in that cycle than in the previous one.
  - Electricity, gas, water & waste services, Agriculture, forestry & fishing, and Mining experienced particularly poor (negative) MFP growth. Drought, natural resource depletion, and capital expansion with long lead times to full production, contributed significantly to these outcomes.
- MFP growth is best examined over productivity cycles, as year-to-year changes may reflect temporary influences. The current cycle is as yet incomplete.
- Since the last productivity cycle, market sector MFP growth fell abruptly in 2008-09 (to -2.4 per cent), being impacted by the global financial crisis. The decline was widespread, with negative MFP growth in nine of the twelve market sector industries.
- There was some recovery in market sector MFP growth in 2009-10 (to 0.4 per cent), although it remained below the long-term average. There continued to be strong growth in capital inputs.
- ABS estimates of MFP for 2010-11 are not yet available. However, recent ABS estimates of labour productivity, investment and hours worked suggest that MFP growth in 2010-11 may be lower than in 2009-10.
- The Commission is currently conducting a detailed study of productivity trends and developments in the Electricity, gas, water & waste services (EGWW) sector.
  - According to the ABS, MFP growth in EGWW has been negative since 1997-98. This contributed to the slowdown in market sector MFP growth during the 2000s.
  - Factors influencing MFP in EGWW include cyclical investment patterns and moves to higher-cost production technologies in response to the actual and anticipated effects of climatic variability.
  - While some factors are expected to be largely temporary, others are structural and more permanent.
- Detailed industry studies reinforce the need to interpret short and even medium term changes in economy-wide official productivity estimates carefully.

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This is the second of the Commission's annual updates on productivity developments in Australia. It provides a brief review of aggregate and industry productivity over the last productivity cycle (2003-04 to 2007-08), as declared by the Australian Bureau of Statistics (ABS), and recent developments in the subsequent two years. Additional background on productivity concepts and discussion of longer-term trends can be found in the first annual update (PC 2010i).

Also included in this update is a more detailed discussion of recent trends and developments in multifactor productivity (MFP) growth in the electricity, gas, water & waste services industry. The Commission's submission to the House of Representative Economics Committee inquiry into productivity (PC 2009e) reported that much of the fall in market sector MFP growth in the last productivity cycle could be explained by reductions in productivity in agriculture, mining, and electricity, gas, water & waste services. Factors affecting mining productivity were examined in detail in a 2008 Commission staff working paper (Topp, Soames, Parham and Bloch 2008). A forthcoming Commission staff working paper provides a detailed examination of productivity in the electricity, gas, water & waste services industry (Topp and Kulys, forthcoming). This appendix contains a summary of the key findings of that study.

The appendix concludes with a brief discussion of aggregate MFP growth in 2010-11 (for which official ABS numbers are yet to be released) and factors likely to affect productivity in the near future.

## **A.1 Recent developments in market sector MFP growth**

Market sector MFP growth over the last complete productivity cycle (2003-04 to 2007-08) was -0.3 per cent a year (table A.1). Market sector productivity cycles as determined and published by the ABS are designed to provide periods over which it is reasonable to compare average annual productivity growth estimates (see box A.1).

There are two years of official ABS MFP estimates since this complete cycle. MFP growth for the Australian market sector fell abruptly to -2.4 per cent in 2008-09 (revised by the ABS from -2.7 per cent), before recovering to 0.4 per cent in 2009-10 (table A.1). Year-to-year movements need to be interpreted with caution because they can reflect temporary influences that do not reflect technological progress. For example, the global financial crisis (GFC) affected productivity estimates for 2008-09 and the recovery from that event affected the 2009-10 estimates.

### Box A.1 Examining MFP growth over cycles

Year-to-year changes in measured MFP reflect not only technological progress, but also many temporary influences. Changes in the rate of capital utilisation can be particularly influential — because of limited data this is not measured as a change in inputs but instead appears as a change in measured MFP. Going into a downturn, measured MFP growth is likely to be overly depressed as a result of underutilised inputs that are still fully included in measured inputs. In an upturn, measured MFP growth can rebound in part as a result of previously underutilised inputs being used to generate new output growth.

A common approach when interpreting movements in MFP is to attempt to abstract from these temporary influences through longer-term averaging of measured growth. The Australian Bureau of Statistics (ABS) identifies periods over which to best examine market sector MFP. These are called ‘MFP growth cycles’ or ‘peak-to-peak periods’. By analysing average annual MFP growth between selected peaks, the ABS aims to minimise the effects of some of the short-term influences that are captured in year-to-year changes in measured productivity (ABS 2008b). In particular, the peaks are assumed to be periods of high capacity utilisation and therefore provide the basis for more consistent comparisons. Nonetheless, the rate of growth over MFP cycles should also be interpreted carefully as it can reflect the influence of other factors such as unmeasured quality change in inputs and outputs and scale effects.

Cyclical factors, including those that affect capacity utilisation, will also generally differ across industries — for example, Agriculture is affected by droughts, Mining by resources booms, and Electricity, gas & water by droughts and by an evolving policy and regulatory environment. A recent Commission Staff Working Paper (Barnes 2011) identified industry-specific cycles as an aid to analysis of technological progress within specific industries over time.

Table A.1 **Growth in market sector<sup>a</sup> MFP, last complete productivity cycle and subsequent years**

Per cent per year

	<i>MFP growth</i>	<i>Value added</i>	<i>Capital<sup>b</sup></i>	<i>Labour<sup>b</sup></i>
2003-04 to 2007-08 cycle	-0.3	3.8	2.8	1.3
2008-09	-2.4	0.4	2.5	0.3
2009-10	0.4	2.1	2.2	-0.5

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in table A.2. <sup>b</sup> Capital and labour inputs are weighted by their relative shares of income.

Source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002).

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In 2008-09, much lower growth in value added was outweighed by capital and labour input growth (particularly strong growth in capital services) leading to negative MFP growth. (MFP growth is growth in output (value added) in excess of growth in the combined inputs of capital and labour.) In 2009-10 there was moderate MFP growth. Stronger value added growth, together with a contraction in hours worked, outweighed strong capital services growth.

Other countries also experienced a recovery in productivity growth in 2009-10. Estimates of MFP growth for 2009-10 are currently not available for most OECD countries. However, higher MFP growth rates than that for Australia have been reported by the national statistics agencies of the United States (3.2 per cent in 2010), Canada (1.6 per cent in 2010) and New Zealand (1.5 per cent in year ended March 2010).<sup>1</sup> Australia's relatively strong capital services growth is a factor. Compared with Australia, the United States and Canada had considerably lower capital services growth, together with higher growth in value added and hours worked. New Zealand's value added declined in 2009-10 but MFP growth rose because hours worked declined more rapidly than value added, and capital services growth was low.

## **Industry level productivity growth**

The aggregate Australian market sector is divided into 12 industry sectors and there can be considerable variation in productivity growth across those sectors. Closer analysis of productivity growth in the individual industries, and of the underlying drivers of that productivity growth, is helpful in better understanding aggregate productivity outcomes and in informing policy development.

### *The last complete productivity cycle*

Last year's annual report examined in some detail the decline in market sector MFP growth in the 2003-04 to 2007-08 cycle relative to the previous cycle. In summary, 10 of the 12 market sector industries had lower average annual MFP growth in the last cycle than in the previous one. However, the Commission identified three sectors — Agriculture, Mining and Electricity, gas, water & waste services (EGWW) — that collectively had a large impact on the decline in market sector MFP growth but for which special circumstances largely explained their poor MFP performance. Agriculture experienced drought; there was significant capital expansion and low value added growth in EGWW; and Mining productivity was affected by the ongoing systematic decline in the quality and accessibility of

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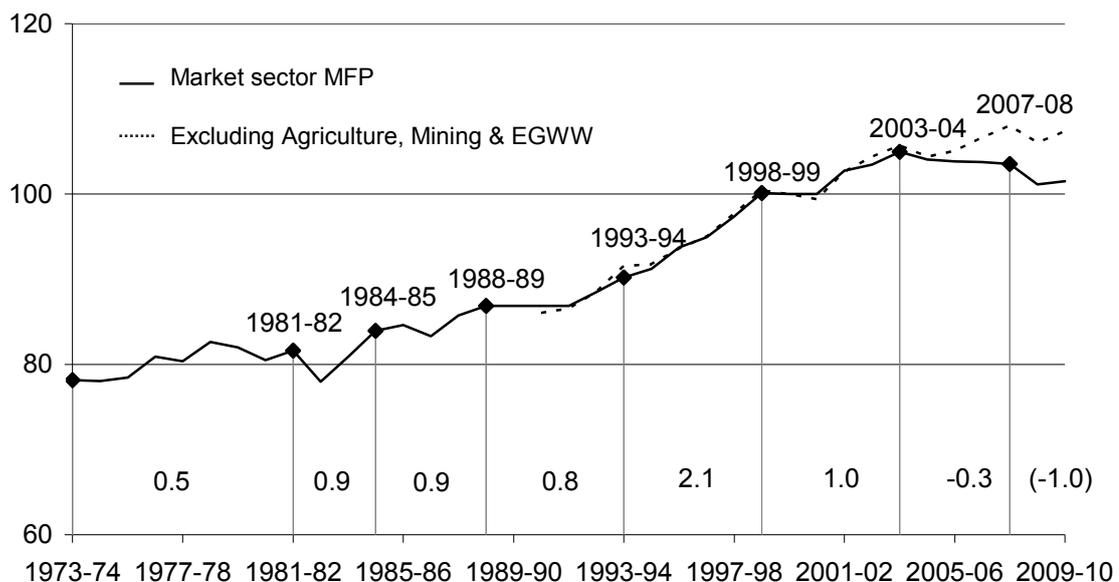
<sup>1</sup> Sourced from BLS (2011); Statistics Canada (2011) and Statistics New Zealand (2011).

resource deposits combined with recent significant capital investment with long lead times to full production (PC 2010i).

Recent ABS industry MFP time series (ABS 2010b), published since the Commission's last annual report, contain revisions to earlier estimates including those for the last complete productivity cycle. Figure A.1 provides updated time series of the MFP index for the Australian market sector, with and without these three 'special' sectors. The average annual rates of MFP growth within each ABS defined productivity cycle are provided between the vertical lines that denote the cycles. (The final two years, 2008-09 and 2009-10, are not a cycle in themselves but average annual growth over this period is included in brackets for completeness.)

**Figure A.1 Market sector<sup>a</sup> MFP, and the impact of poorer performing sectors, productivity cycles, 1973-74 to 2009-10**

Index 1999-2000 = 100 and per cent per year



<sup>a</sup> The market sector consists of 12 selected industries (ANZSIC06 Divisions A to K and R).

Data source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002).

Setting aside these three sectors from the remainder of the market sector, (revised) average annual MFP growth in the 2003-04 to 2007-08 cycle rises to 0.5 per cent (compared with -0.3 per cent for the full market sector) (figure A.1).<sup>2</sup> However, this is still below long-term average annual MFP growth (1973-74 to 2009-10) for the full market sector of 0.7 per cent.

<sup>2</sup> Updated Commission estimates indicate that these three sectors accounted for almost 70 per cent of the decline in MFP growth relative to the 1998-99 to 2003-04 cycle (rather than almost 80 per cent based on previous ABS estimates).

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It is not necessarily expected that these three sectors will continue to reduce aggregate productivity over the next (as yet incomplete) productivity cycle. For example, Agriculture has experienced some post-drought improvement in productivity, although it remains subject to weather-related events. Also, the capital/output lag in Mining is temporary and output should eventually catch up with investment. However, uneven periods of Mining investment may continue to influence productivity, one-off events such as Cyclone Yasi can significantly reduce production on a regional basis, and the systematic decline in energy and mineral resource deposits is likely to continue. Factors affecting EGWW are discussed in detail in section A.2.

### *MFP growth since the last complete productivity cycle*

MFP growth is best interpreted over productivity cycles, as noted above. Nonetheless, recent annual productivity estimates are of interest and relevant to a general discussion of economic performance, even though they may be subject to revision and do not yet constitute a complete cycle.

Since the last complete cycle, market sector MFP fell abruptly in 2008-09 by -2.4 per cent. While the issues for EGWW and Mining discussed above remain relevant, much of this poor outcome is almost certainly attributable to the impact of the GFC, notwithstanding Australia's relatively strong economic performance compared with other countries. Nine of the twelve Australian market sector industries experienced negative MFP growth in 2008-09. Four industry sectors exhibited very poor MFP growth — Mining, Transport, postal & warehousing, Manufacturing, and EGWW (table A.2).

Value added declined significantly in some sectors — for example, Manufacturing, Accommodation & food services, and Transport, postal & warehousing — without a commensurate decline in either the capital base or in labour. Further, Retail trade and Financial & insurance services had value added growth close to zero, also without commensurate declines in inputs. In the short-term, firms generally do not fully adjust inputs to downturns in demand — they keep underutilised equipment and tend to 'hoard' labour (particularly skilled labour) in anticipation of an upturn. Measured MFP growth is therefore likely to be overly depressed.

A notable exception was Agriculture, forestry & fishing, for which MFP growth grew by nearly 15 per cent in 2008-09 — resulting from a 'bounce-back' in value added in response, particularly, to good rainfall in many parts of the country.

**Table A.2 Growth in MFP by industry and its components, 2008-09**  
Per cent per year

	<i>MFP</i>	<i>Value added</i>	<i>Capital<sup>b</sup></i>	<i>Labour<sup>b</sup></i>
Agriculture, forestry & fishing	14.8	17.6	1.1	1.4
Mining	-8.9	2.7	10.1	2.6
Manufacturing	-4.7	-5.9	1.0	-2.2
Electricity, gas, water & waste services	-4.6	3.7	3.7	5.1
Construction	-0.6	3.0	2.2	1.5
Wholesale trade	-1.4	1.3	1.3	1.4
Retail trade	1.1	0.0	1.2	-2.2
Accommodation & food services	-2.7	-3.2	0.7	-1.1
Transport, postal & warehousing	-6.4	-1.2	2.4	3.2
Information, media & telecommunications	-0.6	1.0	2.8	-1.1
Financial & insurance services	-0.5	0.1	1.1	-0.5
Arts & recreation services	3.4	7.5	1.4	2.6
<b>Market sector<sup>a</sup></b>	<b>-2.4</b>	<b>0.4</b>	<b>2.5</b>	<b>0.3</b>

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in the table. <sup>b</sup> Capital and labour inputs are weighted by their relative shares of income.

Source: Based on ABS (Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10, Cat. no. 5260.0.55.002).

The productivity data for 2009-10 show some recovery from the GFC. Value added growth was higher in most industries and MFP growth was an improved, though still historically weak, 0.4 per cent — an improvement of around 2.7 percentage points from 2008-09 (table A.3). It also compares poorly with the United States, Canada and New Zealand, as noted above.

Retail trade had the highest MFP growth in 2009-10, rising from 1.1 per cent a year earlier to 4.2 per cent, with higher growth in value added and lower growth in inputs. The particularly poor performers of 2008-09 all improved significantly (table A.3). Manufacturing MFP growth rose by 7.5 percentage points to 2.8 per cent and Transport, postal & warehousing MFP growth rose by 8.7 percentage points to 2.3 per cent. In Mining and EGWW, MFP growth was also improved by more than 3 percentage points in each case, although still negative at -1.8 and -1.4 per cent, respectively. The special factors discussed above are still relevant to the performance of these two industries, both having strong growth in capital services.

**Table A.3 Growth in MFP by industry and its components, 2009-10**

Per cent per year

	<i>MFP</i>	<i>Value added</i>	<i>Capital<sup>b</sup></i>	<i>Labour<sup>b</sup></i>
Agriculture, forestry & fishing	-2.3	-1.2	1.1	0.1
Mining	-1.8	6.2	7.7	0.5
Manufacturing	2.8	1.5	0.5	-1.7
Electricity, gas, water & waste services	-1.4	2.7	3.2	1.0
Construction	-2.9	0.5	3.5	0.1
Wholesale trade	-1.1	3.3	1.0	3.4
Retail trade	4.2	1.9	0.9	-3.0
Accommodation & food services	-4.4	-2.1	0.3	2.1
Transport, postal & warehousing	2.3	2.4	2.1	-2.0
Information, media & telecommunications	1.6	1.2	1.9	-2.2
Financial & insurance services	2.0	3.0	0.6	0.4
Arts & recreation services	1.9	0.0	1.4	-3.2
<b>Market sector<sup>a</sup></b>	<b>0.4</b>	<b>2.1</b>	<b>2.2</b>	<b>-0.5</b>

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in the table. <sup>b</sup> Capital and labour inputs are weighted by their relative shares of income.

Source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002).

Agriculture, forestry & fishing had MFP growth of -2.3 per cent, with a fall in value added and steady growth in capital services. Construction MFP declined further (by -2.9 per cent) with lower value added growth and strong capital service growth. Accommodation & food services (AFS) MFP growth continued to fall at -4.4 per cent, with value added contracting (although by less than in 2008-09) and stronger input growth. This decline in AFS value added may partly reflect the effect of the strength of the Australian dollar on domestic tourism. The number of Australians travelling abroad, rather than domestically, has risen as the relative price of overseas travel has declined; and growth in overseas arrivals has slowed as Australia has become a more expensive destination (Lowe 2011, TRA 2010).

### *Expanded market sector*

The ABS recently expanded its market sector from 12 to 16 industry sectors — adding Rental, hiring & real estate services; Professional, scientific & technical services; Administrative & support services; and Other services.

There is considerable value in expanding the coverage of the official MFP estimates to take in a larger share of Australian economic activity. However, in releasing the new market sector industry productivity estimates the ABS cautions

As such, the estimates for the four new industries in this data cube should be interpreted with care, particularly with regard to short term movements in the series. ... Services industries lend themselves to a range of additional measurement complexities. ... In particular, some of the new services industries introduced into the expanded

definition of the market sector are characterised by very rapid growth in capital services that imply significant declines in measured productivity throughout the measurement period. (ABS 2010b)

The Commission's preference is therefore to examine estimates for the 12 industry aggregate and the 16 industry aggregate separately until greater confidence in the estimates for the new sectors is achieved (PC 2011e). Table A.4 compares the MFP estimates for the last cycle and the subsequent years for both aggregates.

**Table A.4 Growth in MFP, 2003-04 to 2007-08 cycle, 2008-09 and 2009-10**  
Per cent per year

	2003-04 to 2007-08	2008-09	2009-10
<b>Market sector (12 industries)<sup>a</sup></b>	<b>-0.3</b>	<b>-2.4</b>	<b>0.4</b>
Rental, hiring & real estate services	-6.3	3.1	1.6
Professional, scientific & technical services	-3.7	2.7	-2.2
Administrative & support services	3.2	-3.5	-6.9
Other services	-3.5	2.1	-0.4
<b>Expanded market sector (16 industries)<sup>b</sup></b>	<b>-0.8</b>	<b>-1.7</b>	<b>0.0</b>

<sup>a</sup> The market sector consists of the 12 selected industries (ANZSIC06 Divisions A to K and R) as listed in the table A.1. <sup>b</sup> The expanded market sector consists of the 12 industries of the market sector plus the four industries listed in this table.

Source: Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002).

It is notable that over the 2003-04 to 2007-08 productivity cycle, three of the four industries newly included within the market sector exhibited average annual MFP growth below -3 per cent, with one as low as -6 per cent (table A.4). This results in lower MFP growth for the expanded market sector than for the 12 industry market sector over this cycle. In subsequent years, the performance varies in the new four industries, resulting in MFP in the expanded market sector being higher than the 12 industry market sector in 2008-09 but lower in 2009-10. However, as already noted, the ABS cautions that short-term movements in these estimates should be interpreted with care.

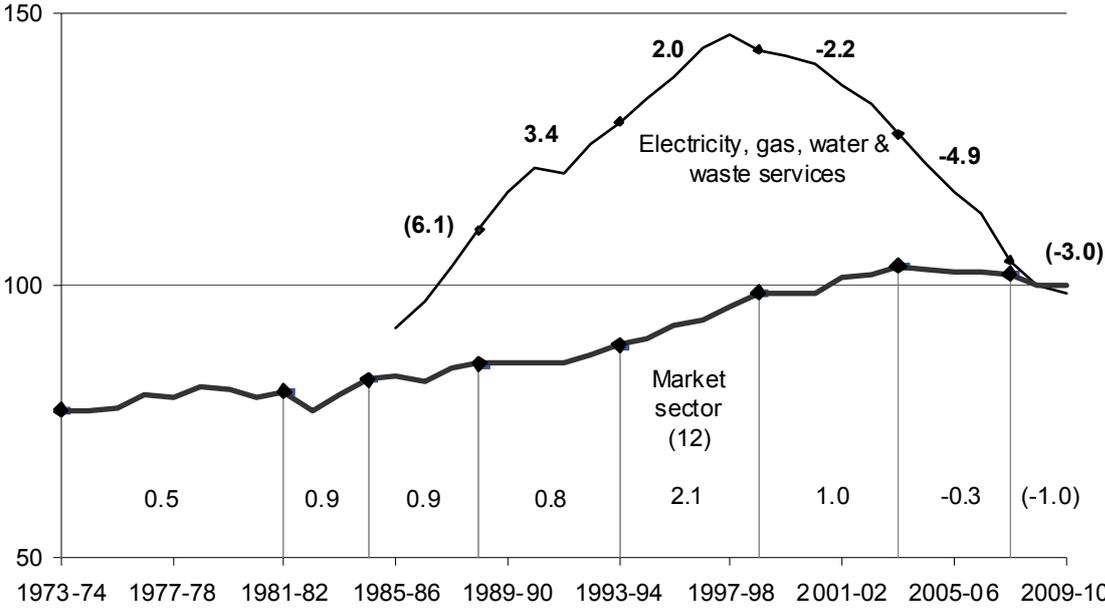
## **A.2 MFP trends in Electricity, gas, water & waste services**

As noted in last year's annual report, one of the industries of the market sector that acted as a drag on aggregate productivity growth during the 2000s was Electricity, gas, water & waste services (EGWW).

ABS estimates show that there has been little MFP growth in EGWW, *on average*, over the last 24 years (figure A.2). However the pattern of growth over the period has been quite unusual, with MFP initially growing strongly (and at a much faster rate than the market sector average), but then becoming negative from 1997-98 onwards. So much so that by the end of the 2000s nearly all of the early productivity gains were effectively offset.

Importantly, the latter period of negative MFP growth in EGWW has been contributing to the overall slowdown in market sector productivity growth from the mid-2000s onwards (figure A.2). Of the twelve industries that make up the market sector, EGWW is the only one to have recorded negative MFP growth in both of the two most recently completed productivity cycles.

**Figure A.2 Market sector<sup>a</sup> and EGWW MFP indexes and growth rates across market sector productivity cycles<sup>b</sup>, 1973-74 to 2009-10**  
 Index 2008-09 = 100 and per cent per year



<sup>a</sup> The market sector consists of 12 selected industries (ANZSIC06 Divisions A to K and R). <sup>b</sup> Market sector productivity cycles as defined by the ABS. Numbers on the chart are average annual growth rates within each designated cycle. Figures in parenthesis indicate that the average value refers to an incomplete cycle. MFP data for EGWW is only available from 1985-86 onwards. In the market sector MFP cycle from 1984-85 to 1988-89, the average growth rate of MFP in EGWW covers the period from 1985-86 to 1988-89 only.

Data source: ABS (*Experimental Estimates of Industry Multifactor Productivity*, 2009-10. Cat. no. 5260.0.55.002, December 2010).

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## A study of MFP trends in EGWW

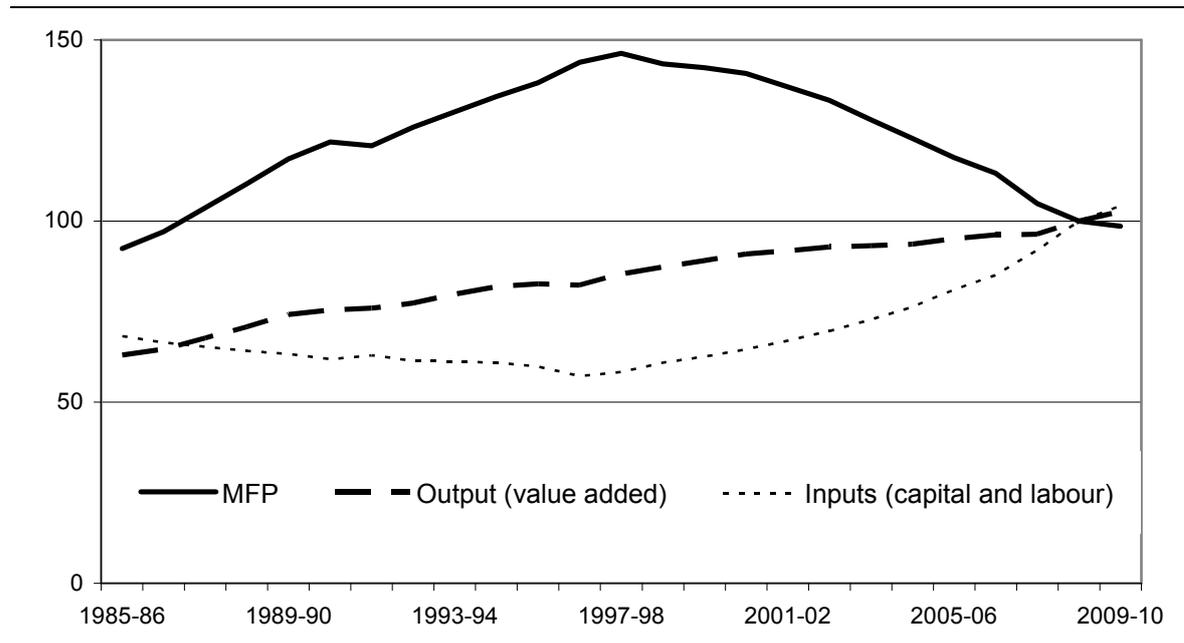
A detailed analysis of MFP trends in EGWW has recently been undertaken at the Commission in order to better understand the causes and consequences of the marked swings or cycles in measured productivity. The remainder of this section provides a summary of the research results.<sup>3</sup>

### *Inputs, output and MFP*

The period of strong positive MFP growth in EGWW from the mid-1980s to the late 1990s was characterised by comparatively strong growth in output alongside a reduction in inputs (figure A.3). In the subsequent period from 1997-98 to 2009-10, output growth was more subdued, despite a strong growth of inputs (labour and capital), and hence MFP was negative.

Figure A.3 **Electricity, gas, water & waste services: MFP, output and inputs<sup>a</sup>, 1985-86 to 2009-10**

Index 2008-09 = 100



<sup>a</sup> Weighted aggregate of capital and labour inputs.

Data source: ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002, December 2010).

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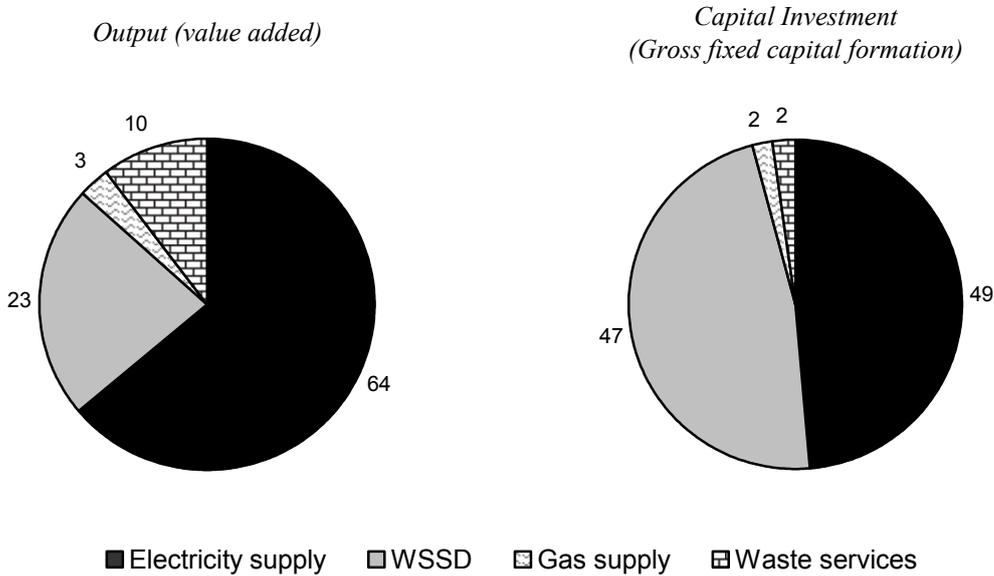
<sup>3</sup> The final output of the research will be a Staff Working Paper (Topp and Kulys, forthcoming) which will contain additional historical information on productivity trends in electricity, gas and water industries, along with more detailed industry information and analysis relating to the key factors and issues that have been impacting on measured productivity in EGWW over time.

Based on the information in figure A.3, a key piece of the MFP puzzle in EGWW is the change over time in input growth rates. To explore this issue further, estimates were made of inputs, outputs and MFP within the subdivisions of EGWW.

**Subdivision MFP estimates**

The Commission has developed MFP estimates for three of the four subdivisions of EGWW — Electricity supply (ES), Water supply, sewerage & drainage services (WSSD), and Gas supply (GS). MFP estimates were not able to be produced for the Waste services subdivision due to data limitations. However, an examination of ABS productivity estimates shows that excluding Waste services does not change the long-term pattern of MFP growth in the division. Two subdivisions in particular — ES and WSSD — account for the vast majority of output and capital investment (figure A.4).<sup>4</sup> Developments in the latter therefore dominate division level changes in MFP.

**Figure A.4 Electricity, gas, water & waste services: output and investment shares in 2009-10**  
Percentage share



Data source: ABS (Australian Industry, 2009-10, Cat. no. 8155.0).

<sup>4</sup> Gas supply (as defined by the ABS) is a small subdivision as the only activity covered is the distribution of gas through mains systems. Gas production activities are accounted for in the Mining division, while the long-distance transmission of gas through pipelines is accounted for in the Transport, postal and warehousing division. Activities covered in ES and WSSD are much broader in scope, and encompass production activities (dams, desalination plants, water treatment plants, power stations etc), long distance water and electricity transmission, and distribution and retailing.

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As shown in figure A.5, the poor productivity performance of EGWW since the late 1990s is primarily due to negative MFP growth in both ES and WSSD. MFP in Gas supply has also been comparatively poor in more recent years, although GS is a small subdivision and hence does not have much impact on MFP at the division level<sup>5</sup>.

In the majority of cases and time periods considered, unusual patterns or phases in subdivision MFP growth are driven by marked changes in the growth rate of inputs, rather than by changes in the growth rate of output. In general, output growth tends to be comparatively stable over time. (A key exception is the period of slower output growth in WSSD from the mid-1990s onwards, which is discussed separately below.)

In both ES and WSSD, exceptionally strong MFP growth from the mid-1980s to the late 1990s resulted from slow or negative input growth, combined with continued growth in output. From the late 1990s onwards, input growth rates surged dramatically in both subdivisions, putting a brake on MFP growth. Output growth in ES did slow slightly in the period (but was still positive), and this added to the effect of rising inputs to drive down MFP. In WSSD, output growth slowed in the 2000s (primarily due to drought-induced restrictions on water availability), and this exacerbated the effect of rising inputs, driving down measured productivity even harder.

### **Explaining changes in subdivision inputs and output**

A number of issues were identified in the course of the study that help to explain the sometimes counter-intuitive combinations of input and output growth trends observed within the major subdivisions. For simplicity, the issues have been categorised into one of four broader themes:

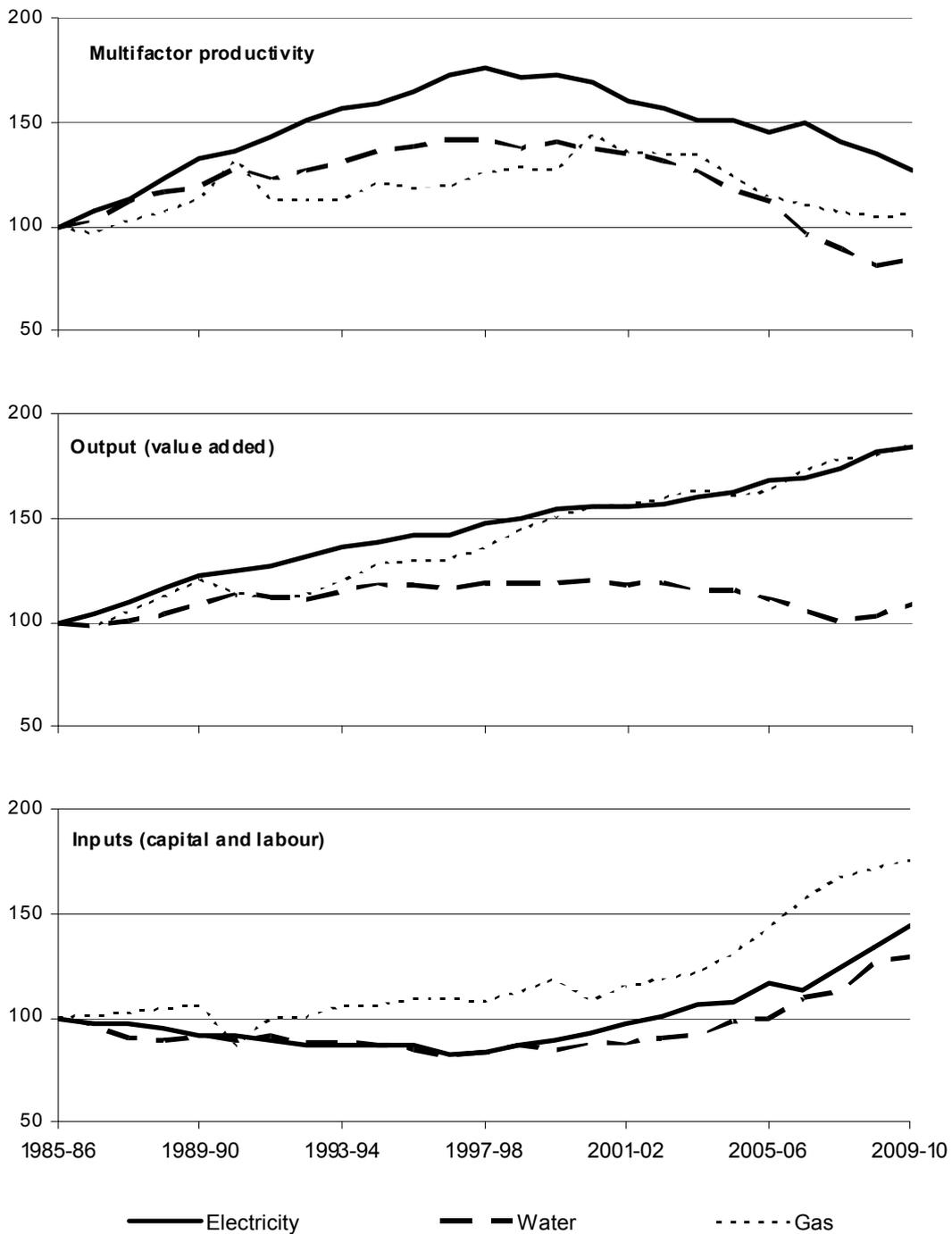
1. Cyclical investment
2. Output measurement
3. Technological change
4. Unmeasured quality change

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<sup>5</sup> Also, the Staff working paper found that the MFP estimates for Gas supply were likely to be less reliable than those for the much larger subdivisions (ES and WSSD) due to data quality issues (Topp and Kulys forthcoming).

**Figure A.5 MFP, output and inputs<sup>a</sup> by subdivision, 1985-86 to 2009-10**

Index 1985-86 = 100



<sup>a</sup> Weighted aggregate of capital and labour inputs.

Data source: Topp and Kulys (forthcoming).

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This categorisation is also useful when it comes to interpreting the nature and significance of MFP changes due to specific factors. For example, some of the identified output measurement issues are partly or wholly temporary in nature, and should not affect long term average rates of MFP growth in the division. In the short to medium term however, these factors can have significant and sustained effects on measured MFP, either positive or negative. On the other hand, changes in MFP that are identified as having been caused by technological changes and developments are structural in nature, and reflect changes in the underlying real costs of production (at least in terms of measured costs). Each category of issues is explained below.

### *Cyclical investment issues*

Cyclical investment patterns affect all subdivisions of EGWW, and particularly electricity supply and water supply. They reflect the nature of many capital assets used in the division (many large and lumpy or indivisible capital assets like dams, water treatment plants, power stations, high-voltage transmission lines, and gas distribution networks) along with historic investment patterns (figure A.6). As measured output is inherently less variable than capital inputs (which change significantly during surges and contractions in augmentation and renewal of supply capacity), unmeasured changes in the rate of utilisation of large and lumpy capital assets, along with changes in labour inputs, flow directly through to MFP.<sup>6</sup>

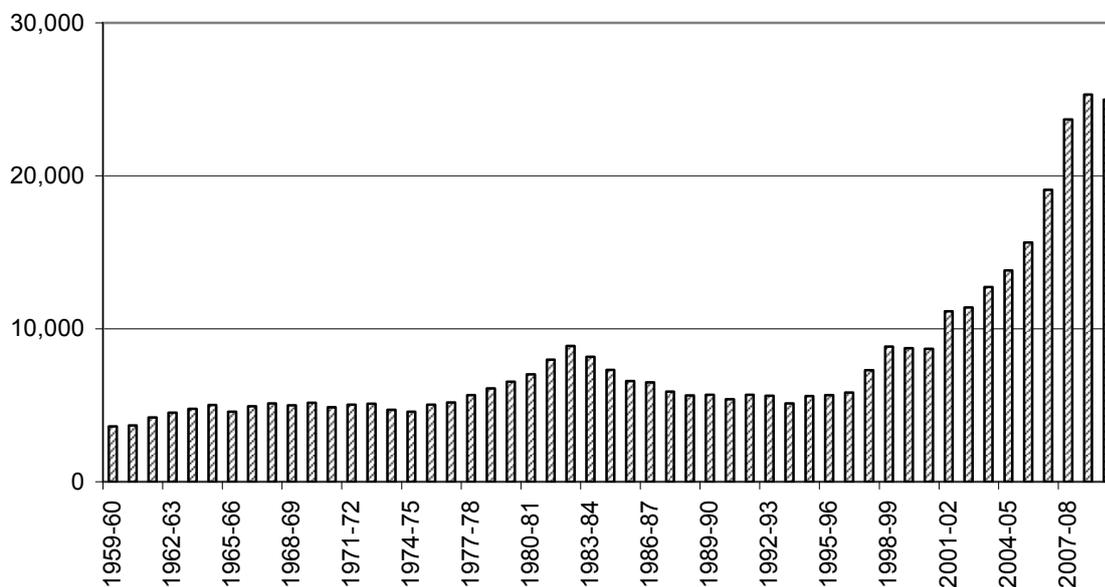
An overhang of supply capacity from a previous investment phase meant that EGWW output grew strongly from the mid-1980s to the late 1990s on the back of negative (measured) input growth. This was a primary driving force behind the very rapid growth in measured productivity in the division during that period.

From the late 1990s, however, supply constraints started to be reached, and rates of investment in capital and labour inputs began to rise once again. By the mid-to-late 2000s the annual growth in inputs was at historically high levels as three key subdivisions — ES, WSSD and GS — were engaged in major programs of capacity augmentation and renewal. To some extent, the additional capacity put in place during the 2000s was expected to underpin output growth into the medium term, not just to meet short term needs. A consequence, however, was a temporary downward pressure on measured MFP.

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<sup>6</sup> ABS estimates of capital inputs assume that all new investment expenditure is immediately and fully utilised in production. For large infrastructure assets that take many years to build and many years before they are fully utilised, this assumption has the potential to adversely effect MFP (see ABS 2007, p.viii).

**Figure A.6 Gross fixed capital formation in EGWW: Chain volume measures (\$m 2008/09), 1959-60 to 2009-10**



Data source: ABS National Accounts (2009-10) on dXtime (database).

Looking ahead, empirical data and other evidence indicate that the investment boom in EGWW that was prominent during the mid-to-late 2000s may ease somewhat in coming years. To the extent that measured input growth does, in fact, slow over the next few years in EGWW and assuming that output growth picks up speed on the back of newly established supply capacity, this will have a positive effect on measured MFP in EGWW.<sup>7</sup>

### *Output measurement issues*

Measuring the volume of output for an industry is not easy, and the choice of output indicator variables can lead to unexpected or unanticipated changes in measured output and, hence, MFP.

<sup>7</sup> The possible early closure of a number of large coal-fired power stations would, however, result in another round of major new investment in the sector, and this would tend to add temporary downward pressure to MFP as the investment takes place. Also, if the replacement supply capacity is fundamentally higher cost (in terms of labour and capital inputs) compared with the coal-fired power it replaces, the technology change will tend to permanently lower the level of MFP in the division (changes in emissions notwithstanding).

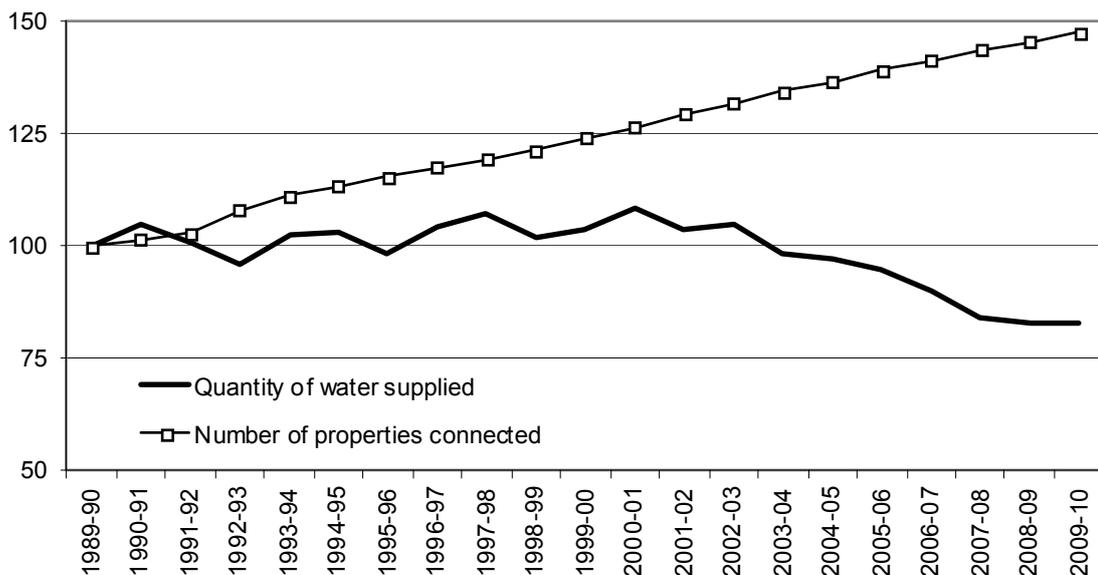
In the case of EGWW, the ABS volume output measures used for each subdivision generally reflect movements over time in key production variables: aggregate electricity production in the case of ES; aggregate gas production in the case of GS; and a composite of three quantity variables in the case of WSSD — the quantity of urban water supplied, the quantity of irrigation water supplied, and the number of properties connected to urban sewage treatment services.

For the most part, these assumptions by the ABS are reasonable, but reflect an inevitable trade-off between accuracy and comprehensiveness and the costs of obtaining more detailed information.

For example, in WSSD the ABS measures the quantity of output in the urban water supply sub-sector (which is around one half of the subdivision) as the aggregate quantity of water supplied. Although the latter had grown steadily in the past in line with population growth, from the mid-1990s onwards growth in the quantity of urban water consumption first slowed and then became negative (figure A.7). This was due to two factors: more intensive use of demand management initiatives to encourage urban water customers to use less water; and widespread and persistent drought conditions during the 2000s that dramatically reduced water availability and led to restrictions on water consumption.

**Figure A.7 Urban water supplied and the number of properties connected to urban water services, 1989-90 to 2009-10**

Index 1989-90 = 100



Data source: Topp and Kulys (forthcoming).

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While aggregate urban water use was being cut due to reduced water availability and more widespread demand-management initiatives, the number of new connections to urban water networks were growing rapidly (figure A.7). Because this *output* of the subdivision was not reflected in the ABS output measure, some aspect of the decline in measured MFP in WSSD was a consequence of the choice of output indicator variable, rather than being due to a fundamental reduction in the efficiency with which urban water services were supplied.

In general, if the ABS had used the number of properties connected to urban water services as the output measure for this activity (rather than the quantity of water supplied), the reduction in MFP would not have been as severe. Looking ahead, as aggregate urban water consumption responds to improved water availability (largely reflecting the new water supplies available from desalination and recycling plants, but also assuming that there is a sustained improvement in rainfall and dam storage levels), measured MFP is likely to recover many of the losses associated with the 2000s drought. However, it is also possible that the community will continue to practice a more prudent approach to water use. In this event it may take longer before *aggregate* urban water consumption returns to pre-drought levels, and this would limit the speed and extent of any recovery in measured productivity.

In the case of electricity supply, the volume output measure used by the ABS is aggregate electricity production, which has generally trended upward over time in line with population and business growth. However, during the last ten to fifteen years there has been a shift in diurnal (within the day) power use, such that maximum or peak daily demand has been rising faster than growth in average daily electricity demand. The rise in *relative* peak demand was largely due to strong growth in demand for air-conditioning during a succession of hot and atypically dry summers.

An increase in the ratio of peak to average demand typically lowers system efficiency — particularly transmission and distribution efficiency — since a greater proportion of supply capacity sits idle each year. With inputs rising faster than measured output (which, as noted earlier, is assumed by the ABS to reflect changes in average electricity demand over time, not peak demand), this development contributed to the negative growth in measured MFP in EGWW from the late 1990s onward.

Unlike in the case of drought for WSSD, the negative effect on measured productivity of rising relative peak electricity demand is not expected to be ‘automatically’ reversed in the future. It is possible, for example, that the ratio of peak to average demand might increase beyond current levels, and this would tend to further reduce measured productivity in the subdivision. On the other hand,

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measures to flatten out the profile of daily electricity demand — including more widespread use of time-of-day electricity prices — would tend to improve capacity utilisation in the subdivision, and this would have a positive effect on measured MFP.

### *Technological change issues*

Negative MFP growth in EGWW since the late 1990s is also a reflection of fundamental changes to production technology that have occurred in two key subdivisions in response to climate-related issues.

In the case of electricity supply there was a major shift in industry structure and the preferred technology of power generation in the late 20th century. This involved a move away from relying on a comparatively small number of large coal-fired power stations to meet energy needs, towards building a larger number of lower capacity gas-fired power stations and renewable energy sources. The shift to these higher cost sources of power has reduced measured productivity in electricity supply, although it has generated gains in the form of lower greenhouse gas emissions per unit of output than would otherwise have been the case.

The water supply subdivision also experienced a major technology shift during the late 20th century. In this case the technology shift was in response to widespread drought, and involved a move away from relying on rain-fed dams as the source of new urban water supplies and towards non-dam alternatives such as desalination and water recycling plants. The latter are higher cost sources of supply compared with the established system of rain-fed dams, and hence the effect on MFP has been negative. The trade-off is an urban water supply sector that is potentially less susceptible to the vagaries of climate. However, this is not to say that the trade-off is optimal in benefit-cost terms. The recent Commission inquiry into the urban water supply sector found that in metropolitan cities there were lower cost supply augmentation options that could have been pursued ahead of desalination and water recycling (PC 2011c). The implication of this for measured productivity in EGWW is that the decline due to the shift away from dams was exacerbated by some of the non-dam augmentation options chosen.

Looking ahead, continued shifts away from coal-fired power and rain-fed dams will tend to further reduce the level of MFP in EGWW (relative to what it might otherwise have been), at least until some period of comparative stability in the mix of supply sources is established. That is, as non-coal and non-dam technologies become the dominant sources of supply in their respective subdivisions, future MFP growth in EGWW will tend to be driven by underlying changes in the efficiency of the new technologies. Until that time, the dominant issue will be the ‘level-

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reducing' effect on MFP of substituting higher-cost technologies for lower-cost technologies.

### *Unmeasured or hidden quality change issues*

Finally, changes to the standards or regulations governing EGWW outputs have increased production costs without any concomitant change in the measured volume of output. The consequence is that part of the observed reduction in MFP reflects unmeasured or hidden changes in the quality of industry outputs, rather than reflecting a decline in the efficiency with which outputs are produced.

In electricity supply, a significant hidden quality improvement is associated with the move to mandate the undergrounding of the distribution network in many regions. Undergrounding of electricity cabling is costly, but because the benefits do not appear as an increase in output (in fact, the benefits of this quality improvement are not measured directly anywhere in the economy), the outcome is lower measured productivity in EGWW.

In the water sector, changing standards relating to wastewater treatment and disposal have significantly improved the quality of this activity, but the quality change is not fully accounted for in the ABS measure of output. As the cost of meeting higher sewage and wastewater treatment standards has been substantial, the net effect on measured MFP has been negative.

Other unmeasured improvements to the quality of outputs in EGWW over recent years — such as improved electricity supply standards and higher potable water standards — will also have contributed to the observed decline in MFP since the late 1990s. These examples highlight the potential for MFP changes in EGWW to be the result of changes to regulatory standards or other government policies that ultimately impact on the cost of supplying goods and services, but not show up as quality-adjusted changes in output volumes.<sup>8</sup>

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<sup>8</sup> Unmeasured changes in the quality of inputs and outputs are one of a number of theoretical and empirical challenges involved in estimating MFP. The Commission is currently participating in an Australian Research Council sponsored project examining some of these measurement issues. See box C.4.

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## Conclusion

Analysts need to consider how outputs and inputs are measured by the ABS when assessing and interpreting changes in EGWW MFP over time. Unusual events — such as severe and sustained droughts and significant changes in diurnal demand for electricity — are shown to influence MFP growth rates from time to time.

Unmeasured changes to the utilisation of large and lumpy capital assets is a particular problem for the division, and requires careful consideration when analysing MFP changes, even over comparatively long periods. In addition, changes to regulations or standards relating to outputs and/or inputs can also impact on measured MFP. Hidden or unmeasured quality improvements tend to worsen measured MFP, without reflecting the benefits of such changes.

### A.3 Prospective MFP growth in 2010-11

The most recent MFP estimates available are for 2009-10, as discussed in section A.1 (the 2010-11 estimates will not be released by the ABS until late October 2011). However, measured productivity in the most recent financial year is of interest to discussions of economic performance, even though it may be subject to revision and does not constitute a complete cycle. The only statistics that are available for 2010-11 are quarterly estimates for labour productivity (LP) for the expanded market sector. These estimates, together with data on value added, hours worked and capital expenditure, provide some indication of likely MFP growth in 2010-11.

Trends in LP growth and MFP growth can differ, but the components of LP growth can provide some insight into likely MFP growth. Growth in LP is equal to the sum of capital deepening (which is proportionate to the growth in the ratio of capital services to hours worked) and MFP growth. Therefore, early estimates of growth in LP, investment and hours worked can sometimes provide a useful indication of likely developments in MFP growth in advance of the release of official MFP growth estimates.

Based on quarterly estimates since 2009-10, annual LP growth for 2010-11 is expected to be around -0.4 per cent for the expanded market sector<sup>9</sup>, which is significantly lower than the 2.3 per cent in 2009-10 (table A.5). Also, capital

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<sup>9</sup> The ABS does not release quarterly data for the 12 industry market sector, only for the 16 industry expanded market sector. However, the direction of change in this series is generally the same as that for the narrower market sector.

deepening in the expanded market sector is likely to be higher in 2010-11 than 2009-10, given that the apparent large increase in investment is likely to result in capital services growth that is higher than growth in hours worked. This suggests that the decline in LP growth is likely to be associated with a poorer MFP growth outcome in 2010-11 than in 2009-10.

**Table A.5 LP growth and related variables, expanded market sector<sup>a</sup>, 2009-10 and 2010-11**  
Per cent per year

<i>Growth in:</i>	<i>2009-10<sup>b</sup></i>	<i>2010-11<sup>c</sup></i>
<i>Expanded market sector</i>		
Labour productivity	2.3	-0.4
GDP <sup>d</sup>	2.1	2.3
Hours worked	-0.2	2.7
Investment <sup>e</sup>	-4.7	6.2
Capital services	4.6	na
MFP	0.0	na

<sup>a</sup> The expanded market sector consists of 16 selected industries (ANZSIC06 Divisions A to N, R and S).

<sup>b</sup> These 2009-10 estimates are from the last annual national accounts (ABS Cat. no. 5204.0, 2009-10) and associated experimental industry MFP dataset (ABS Cat. no. 5260.0.55.002, 2009-10) and are likely to be revised in the soon to be released annual national accounts for 2009-10. <sup>c</sup> These 2010-11 estimates are annual estimates from the ABS quarterly national accounts for June 2011 (Cat. no. 5206.0) and may be subject to revision in the soon to be released annual ABS national accounts for 2010-11 (Cat. no. 5204.0).

<sup>d</sup> GDP of the expanded market sector, not the whole economy. <sup>e</sup> The investment indicator is total private business investment (which does not include dwellings and ownership transfer costs).

*Sources:* Based on ABS (*Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 2009-10*, Cat. no. 5260.0.55.002); ABS (*Australian System of National Accounts, 2009-10*, Cat. no. 5204.0); ABS (*Australian National Accounts: National Income, Expenditure and Product, June Quarter 2011*, Cat. no. 5206.0).

Flooding across Eastern Australia and Cyclone Yasi have adversely affected GDP growth in 2010-11. These events led to lower production than would otherwise have been the case — mines were flooded, crops damaged or destroyed and other business' operations disrupted. ABS (2011a) noted that most of the economic activity associated with the repair and replacement of damaged property is expected to occur in the first six months or so after the floods, but some would continue throughout 2011 and beyond.

These events have both immediate and ongoing effects on the national accounts. The ABS (2011a, p. 16) noted that the loss of production associated with the floods will have a negative effect on GDP and that aspects of economic activity associated with repairs and replacement of assets in the aftermath will have a positive effect (although there is a possibility that some of that activity will replace activity that would otherwise have occurred).

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The impact of these events was particularly evident in the March quarter of 2011, with GDP growth for this quarter of -0.9 per cent (seasonally adjusted) (ABS 2011c). In terms of expenditure components, exports contributed -1.6 percentage points to the overall -0.9 per cent GDP outcome.

Industry value added (seasonally adjusted) in the March quarter was down 5.7 per cent in Mining and 5.6 per cent in Agriculture, forestry & fishing. Weather disruptions affected a range of mineral commodities. Transport, postal & warehousing output growth was also low with falls in road and rail transport due to flooding (ABS 2011b,c). However, adjustments to capital, in particular, and labour are not expected to have been commensurate with the impacts of the adverse weather events on industry output. Therefore downward pressure on aggregate MFP growth is likely.

In the June quarter 2011, GDP growth (seasonally adjusted) was 1.2 per cent. There was a return to positive growth in value added in Agriculture, forestry & fishing (1.1 per cent) and higher growth in Transport, postal & warehousing value added (4.4 per cent). There was no growth in value added in Mining following a slow recovery from the weather disruptions. Some mineral production is reported to have rebounded from these events. However, Queensland coal production continues to be affected, with difficulties in removing water from flood-affected coal mines continuing to hinder production. The RBA suggests that a return to full production is not expected until early 2012 (RBA 2011). This may continue to put some downward pressure on Mining productivity in 2011-12.

Recent fiscal issues in some advanced economies potentially pose some risk to Australian productivity growth beyond 2010-11. The RBA in its August Statement of Monetary Policy (RBA 2011) based its forecast of GDP growth in 2011-12 of 4 per cent on the assumption of an orderly resolution of sovereign debt issues in a number of countries but noted that:

... there remains a probability that the fiscal problems in some advanced economies could play out in a disruptive way over the next year or so, which would have flow on effects to global financial markets and economic activity. (RBA 2011, p. 75)

Changes in global growth directly affect Australia's exports and indirectly affect overall demand within the Australian economy. If recent fiscal issues in Europe and the United States lead to significant declines in demand for some sectors of the Australian economy and GDP growth is weaker, this may depress MFP growth if there is not a commensurate decline in growth of the capital base and labour inputs. Expectations as to the severity and length of any downturn in global demand affect

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the extent to which firms keep underutilised equipment and ‘hoard’ labour in the short-term in anticipation of an upturn.

How well Australia meets longer-term challenges (such as those relating to the environment and population ageing) will also be affected by productivity growth, which will be a major determinant of Australia’s future income growth. At the same time, responses to these challenges will in themselves impact on productivity growth and its measurement. Last year’s annual report (PC 2010i) identified three key platforms underpinning future productivity improvement — incentives, flexibility and capabilities (see box A.2). Appropriate policy initiatives in these areas remain important for enhancing Australia’s future productivity performance.

**Box A.2 Key platforms underpinning future productivity improvement**

In its submission to the House of Representatives Economics Committee inquiry into productivity (PC 2009e), the Commission identified three key platforms underpinning future productivity improvement:

- incentives — the external pressures and disciplines on organisations to perform well
- flexibility — the ability to make changes to respond effectively to market pressures
- capabilities — the human and knowledge capital, as well as infrastructure and institutions, that are needed to effect productivity enhancing changes.

All three influence the motivation and ability of organisations to innovate or adopt improvements in processes and products. They are strongly interactive and all need to be attended to in a policy framework that promotes a focus on productivity and innovation by organisations, and diffusion of best practices among them.

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## B Management and accountability

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

### Overview

#### Role and structure

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

The Commission comprises its Chairman and between four and 11 other Commissioners, appointed by the Governor-General for periods of up to five years. Associate Commissioners can be appointed by the Assistant 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 2011 are shown in figure B.1.

#### Commissioners

At 30 June 2011 there were eleven members of the Commission, including the Chairman. Five Commissioners held part-time appointments, one of whom is on long-term leave without pay.

Mike Woods was re-appointed as Deputy Chairman on 17 April 2011 for a period of five years. Angela MacRae was also re-appointed as a part-time Commissioner with effect from 8 December 2010 for a period of five years.

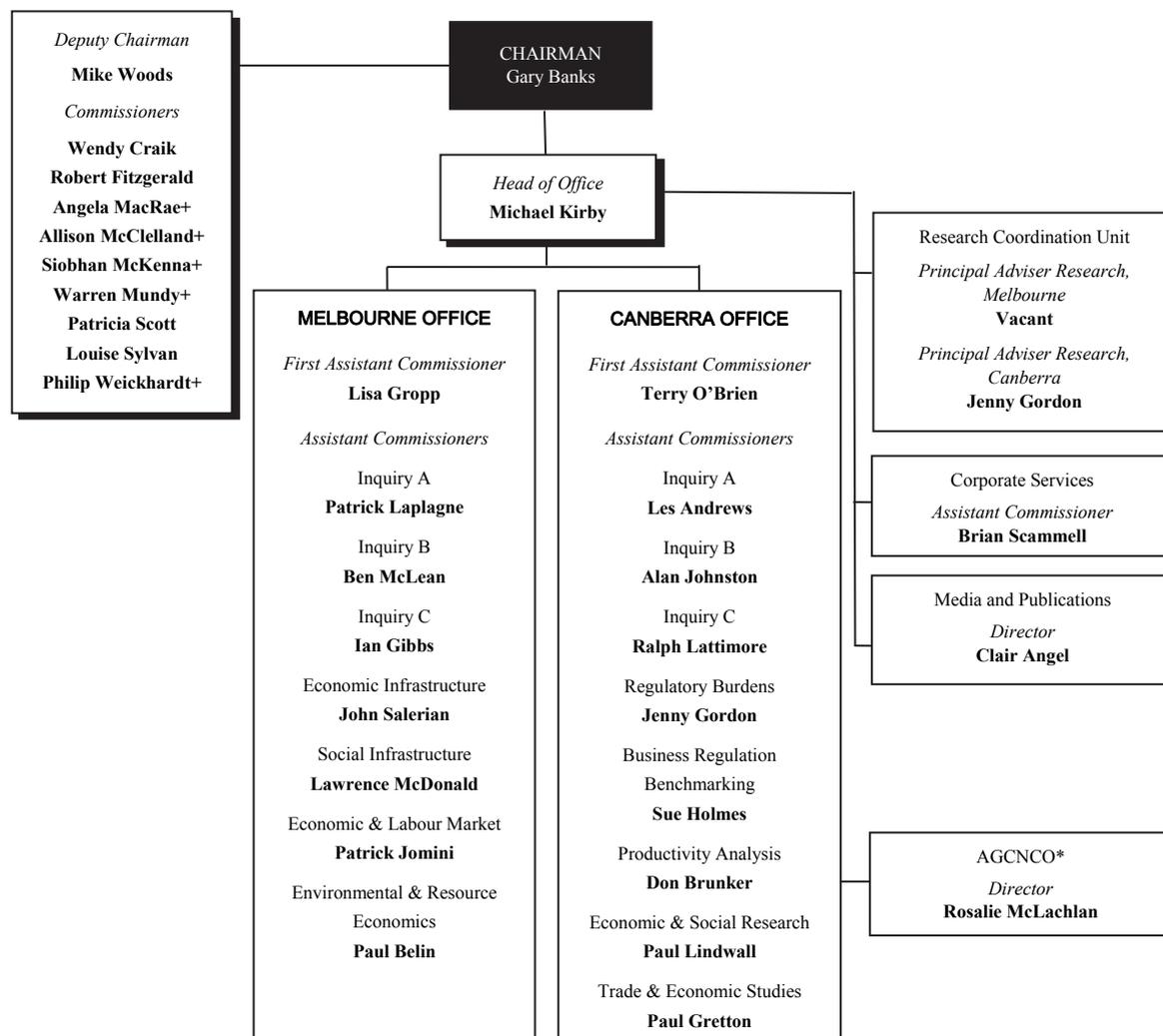
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Alison McClelland was appointed a part-time Commissioner on 8 December 2010 for a period of five years. Immediately prior to her appointment, Ms McClelland was Executive Director, Strategic Policy, Research and Forecasting at the Victorian Government Department for Planning and Community Development. She had previously been Associate Professor and Head of School, Social Work and Social Policy, La Trobe University. Ms McClelland has also been Director of the Brotherhood of St Laurence, responsible for Social Action and Research. She has held several positions with the Australian Council of Social Service over the past 20 years, including honorary policy advisor on economics and tax, board member and Deputy President. Ms McClelland is currently on the advisory committee for the Melbourne Institute of Applied Economic and Social Research and is an Adjunct Professor at La Trobe University. She has a Bachelor of Arts, Diploma of Social Studies and Master of Arts from Melbourne University.

On 8 December 2010 Dr Warren Mundy was appointed a part-time Commissioner for a period of five years. He had been previously appointed as a part-time Associate Commissioner in December 2009 for the Business and Consumer Services commissioned study, and had also served in this capacity during the early stages of the Urban Water inquiry. Dr Mundy has over a decade of experience in the infrastructure sector covering management, planning and development, economic and environmental regulation and commercial negotiation of access agreements. For a number of years he was the principal regulatory and economic adviser to the Australian Council for Infrastructure Development. Dr Mundy has held senior executive roles in the airports industry in both Australia and Europe and has worked for the Reserve Bank and the WA Treasury Corporation. He has been a Director of Vicforests, the Airport Operators Association of the United Kingdom and James Watt College of Higher and Further Education in Scotland. In 2010, Dr Mundy was invited to become a Fellow of the Royal Aeronautical Society of London. He is currently the Deputy Chair of AirServices Australia. Dr Mundy has a PhD in economics from Kings College Cambridge. He has undergraduate qualifications in statistics and post graduate qualifications in corporate finance and corporate governance.

Biographical information on other Commissioners is available on the Commission's website and their terms of appointment are listed in table B1.1 of attachment B1.

Figure B.1 **Productivity Commission structure and senior staff,**  
30 June 2011



+ Part-time Commissioners

\* Australian Government Competitive Neutrality Complaints Office

## Associate Commissioners

At 30 June 2011, two Associate Commissioner appointments were current (table B1.2 of attachment B1).

On 7 October 2010 Mr John Sutton was appointed on a part-time basis for the duration of the inquiry into the economic regulation of airport services. Mr Sutton has worked in various roles with the Construction Forestry Mining and Energy Union (CFMEU) and predecessor Building Workers' Industrial Union (BWIU) for

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30 years, including as National Secretary. From 2007 until 2010 he was Vice President of the Australian Council of Trade Unions (ACTU). Mr Sutton has also been a member of a number of government advisory committees, including the Sustainable Development Advisory Panel, the National Resources Sector Employment Taskforce, and the Skilled Migration Consultative Panel.

Mr John Walsh continued as an Associate Commissioner during 2010-11 working on the inquiry into disability care and support.

Associate Commissioner appointments completed during 2010-11 are listed in table B1.3 of attachment B1.

## **Staff**

The average staffing level during 2010-11 was 193 compared to 188 in 2009-10.

The Commission recruited 24 staff during the year, including six through its graduate recruitment program. Staff turnover was approximately 10.7 per cent.

Statistical information on staffing is provided in tables B1.4 to B1.6 of attachment B1.

## **Outcome objective and resources**

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 110 — are summarised in table B.1. An agency resource statement for 2010-11 is included at Attachment B2. Performance information in respect of this outcome is provided in appendix C.

**Table B.1 Financial and staffing resources summary**

	<i>Budget *</i> 2010-11 \$'000	<i>Actual</i> 2010-11 \$'000	<i>Variation</i> \$'000
	(a)	(b)	(a-b)
<b>Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective</b>			
<b>Program 1.1 Productivity Commission</b>			
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	37 279	35 975	1 304
Revenues from independent sources (Section 31)	272	272	-
Expenses not requiring appropriation in the Budget year	1033	1033	-
<b>Total for Outcome 1</b>	<b>38 584</b>	<b>37 280</b>	<b>1 304</b>
	2009-10	2010-11	
Average Staffing Level (number)	188	193	

\* Full-year budget, including any subsequent adjustment made to the 2010-11 Budget.

## Governance

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

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

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

## Key responsibilities

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

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He is assisted in these tasks by the Head of Office and a Management Committee which addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee comprises the Chairman (as chair), Deputy Chairman, the Head of Office, the 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 Melbourne and Canberra Principal Advisers Research (alternate chairs), the Chairman, the Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners and two research Assistant Commissioners.

Commissioners have a role in strategic coordination and are responsible for the conduct of the individual inquiries, studies or other activities to which they are assigned by the Chairman. Responsibility extends to the quality, 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 senior staff — are used to discuss and monitor progress across the Commission's four mandated outputs. Specifically:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- the Research Committee reports on a quarterly basis on the status and future directions of the research program
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis
- a Commissioner designated with responsibility for competitive neutrality issues reports to the Commission on a quarterly basis
- the Head of Office provides Commissioners with a monthly update on key management issues.

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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 contracted internal auditors generally attend meetings, as does a representative of the Australian National Audit Office on an 'as required' basis. The Audit Committee meets at least four times a year.

## **Risk management and fraud control**

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

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. No instances of fraud were reported during 2010-11. The Chairman's certification in respect of fraud control is at Attachment B3.

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

## **Ethical standards**

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

- It has embraced the Australian Public Service (APS) Values and Code of Conduct. The Commission's various employment agreements contain a commitment from employees to at all times conduct themselves in a manner consistent with the Values and Code.
- All employees have been provided with a copy of the Values and Code, while new employees receive a copy as part of their induction.
- Senior managers in particular are encouraged to set an example through the ethical and prudent use of Commonwealth resources.

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

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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 C provides an account of the Commission's performance.

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

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2010-11 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2010-11 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix C. Details of the Commission's appearances at Senate Estimates hearings in 2010-11 are included in appendix C.

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

*Website and publications:* The Commission's website continues to provide a valuable source of information about the current work of the Commission, its publications and other activities. During 2010-11 the Commission continued to enhance the structure and presentation of website content, with a particular focus on accessibility for participants in the Commission's public inquiry into a long-term disability care and support scheme.

*Information technology:* Maintenance, review and upgrade of Commission ICT infrastructure has continued. In 2010-11, this included replacement of desktop and

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laptop computers, relocation of computer services as part of the Melbourne office move, and an upgrade to the contact database of parties interested in the Commission's work.

*Human Resources:* During 2010-11, the Commission continued a system of performance appraisal for staff and senior executives, including 'upwards appraisal' for Commissioners, intended to enhance individual development and improve organisational performance. The Commission's staff development program also had a particular focus on report writing skills during 2010-11.

*Internal Audit:* The Commission re-engaged an accounting firm, PKF, to conduct a program of internal audits over a three-year period commencing in 2009-10. Internal audits conducted in 2010-11 focused on IT disaster recovery, payroll and accounts payable. No control or compliance deficiencies involving unacceptable risk were identified.

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

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

## **Management of human resources**

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

### **Workforce planning**

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

The Commission regularly considers a range of workforce planning issues associated with the attraction, retention and development of staff. In particular, the

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Commission has been actively monitoring the age profile of its workforce and is seeking to retain mature aged employees by making available flexible working arrangements.

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 2010-11 through the Commission's graduate recruitment program.

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

## **Remuneration and employment conditions**

Commissioners 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 19 Senior Executive Service (SES) employees are employed under individual determinations under the *Public Service Act 1999*. SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS SES Remuneration Survey conducted for the Australian Public Service Commission.

Information on Commissioners and SES employees total remuneration is set out in Note 12 to the Financial Statements (appendix H).

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

During 2010-11, negotiations commenced in relation to a new enterprise agreement for the Commission's non-SES employees. The new agreement has a nominal expiry date of 30 June 2014. The levels of remuneration and terms and conditions of employment of approximately 180 employees are covered by this agreement.

The new enterprise agreement provides improvements in remuneration and other conditions, while also providing a basis for productivity improvements. The

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agreement includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding environment for employees. It was approved on 22 September 2011.

## **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.

Under the Commission's enterprise agreement, all salary increases are conditional upon employees being rated fully effective in their performance appraisal. Senior Executive remuneration continues to include potential to receive a performance related bonus, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. In October 2010 the Remuneration Tribunal removed access to performance pay for Commissioners and rolled a compensatory amount into their total remuneration.

Performance bonuses paid for 2010-11 are summarised in table B.2.

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**Table B.2 Performance bonuses paid for 2010-11**

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	0	0	0
Staff Level 2	0	0	0
Staff Level 3	0	0	0
Staff Level 4	0	0	0
SES	20	214 911	10 745
Principal Executive Officers	0	0	0
<b>Total</b>	<b>20</b>	<b>214 911</b>	<b>10 745</b>

### **Consultative arrangements**

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The PCCC comprises five elected employee representatives, a CPSU representative, and four management representatives. The PCCC met on several occasions during the year to discuss a range of workplace issues.

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

### **Learning and development**

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

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

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

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Recorded expenditure on learning and development in 2010-11 was 1.6 per cent of the annual salary budget. This expenditure related to:

- 189 employees who undertook a total of 568 days of specific training and development
- 63 attended general development programs
- 12 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications
- 1 employee received assistance as part of a Post Graduate Study Award.

The above activities are in addition to one-on-one coaching to address particular development needs and extensive on-the-job training within the Commission. A program of internal seminars on a range of topical economic, social and environmental issues also contributes to staff development.

### **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 2010-11.

In consultation with staff, in early 2011 the Commission reviewed and re-issued its Health and Safety Management Arrangements (HSMA).

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 2010-11.

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

OHS activities during the year included:

- Commission-funded flu vaccinations (take up rate in 2010-11 was around 55 per cent)
- ergonomic work station assessments (73 were completed, including 30 as part of the induction program and 10 assessments due to workplace relocation — they are provided for all new employees as well as existing employees who require advice).
- regular workplace hazard inspections conducted by members of the OHS Committee

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- desk calendars for all employees promoting emergency evacuation and threat procedures
  - the opportunity for employees to complete working hours questionnaires
  - workplace health-related seminars.

## **Employee Assistance Program**

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. Five employees or their families utilised the service in 2010-11.

## **Workplace diversity**

The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity. This is facilitated through the commitment — in the Commission’s enterprise agreement, equity and diversity plan and related policies — to promote workplace diversity. In March 2011, the Commission’s Equity and Diversity Plan was reviewed and re-issued. Information sessions on the Commission’s Workplace Behaviour policy were provided to all staff in May 2011.

## **National Disability Strategy**

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

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a ten-year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at [www.fahcsia.gov.au](http://www.fahcsia.gov.au). The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in

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strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at [www.socialinclusion.gov.au](http://www.socialinclusion.gov.au).

## **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. Revenue from government increased in 2010-11 to \$37.3 million (\$34.4 million in 2009-10). Revenue from other sources was consistent with the previous year at \$0.3 million.

Additional funding was provided to the Commission at Additional Estimates, for a 'Study into emission reduction policies in key economies'. Further information on that funding is provided in the 2010-11 Treasury Portfolio Additional Estimates Statements.

Operating expenses also increased in 2010-11 to \$37.3 million (\$33.7 million in 2009-10). The major expenses in 2010-11 were \$26.8 million in respect of employee expenses, \$9.4 million relating to supplier payments, and \$1.1 million in asset depreciation, amortisation and related expenses.

The operating result for 2010-11 was a \$0.3 million surplus (\$1.3 million in 2009-10).

Table B.1 provides a summary of financial and staffing resources. The agency resource statement is provided at Attachment B2. The audited financial statements for 2010-11 are shown in appendix H.

## **Other information**

### **Purchasing**

The Commission applies the Commonwealth Procurement Guidelines. The Commission's purchases of goods and services during 2010-11 were consistent with the 'value-for-money' principle underpinning those guidelines.

The Commission did not enter into any contracts or standing offers that were exempt from being published on AusTender. Contracts of \$100 000 or more let

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during 2010-11 included a provision for the Auditor-General to have access to the contractor's premises if required.

## Consultancies

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

During 2010-11, nine new consultancy contracts were entered into involving total actual expenditure of \$35 835. There were no ongoing consultancy contracts from the previous year.

Table B.3 provides information on expenditure on consultants in the five years to 2010-11.

Further information on consultancies, as required by government reporting requirements, is provided in Attachment B4.

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

**Table B.3 Expenditure on consultancies, 2006-07 to 2010-11**

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	229	493	124	49	36

## Special payments

The Commission made a number of special payments during 2010-11. 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:* \$22 082 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

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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 Canberra for an ARC partnership project on social and fiscal policy implications of an ageing population; \$22 000 to the University of NSW for an ARC partnership project on productivity measurement in infrastructure, services, and research and development; and \$10 000 to the University of Queensland for an ARC partnership project on utilisation of social science research in policy development and program review.

*Conference sponsorships:* \$5500 to the 55<sup>th</sup> Australian Agricultural and Resource Economics Society National Conference; \$10 000 for the Australian Conference of Economists 2010; \$27 500 to the 2011 Economic and Social Outlook Conference; and \$8250 to the Economics Society of Australia for the Eminent Speaker Series – Professor Joseph Stiglitz.

*Awards:* \$1200 to the 2010 top student, Economics Honours, at Monash University (R H Snape Productivity Commission Prize); \$1000 to the top student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize); \$350 to the top Microeconomics student at La Trobe University.

## **Legal services**

Total expenditure on legal services in 2010-11 was \$61 968. 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)).

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

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

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen have been provided in past annual reports. Recent Commission reports on Australia's urban water sector and Emission reduction policies and carbon prices in key economies are further examples of work undertaken requiring integration of complex economic, social and environmental considerations.

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

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

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

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## **Publications and submissions**

Appendix G lists all the Commission's publications in 2010-11.

## **Freedom of information**

No requests were received in 2010-11 for access to information under the *Freedom of Information Act 1982*. A statement encompassing formal reporting requirements is provided in Attachment B5.

## **Advertising and market research**

The Commission does not undertake 'advertising campaigns'. However, the Commission publicises its government-commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases, an email alert service, notification on the Commission's website and distribution of Commission circulars.

A total of \$172 769 was paid for advertising (including recruitment advertising) in 2010-11 to Adcorp Australia Ltd.

## **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 B6.

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

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

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

This annual report can be found at the above internet address. Inquiries about any Commission publication can be made to:

Director  
Media and Publications  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601  
Telephone: (02) 6240 3239  
Facsimile: (02) 6240 3300

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# Attachment B1

## Commissioner and employee statistics

Table B1.1 **Chairman and Commissioners, 30 June 2011**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2008	19 May 2013
Mr M C Woods (Deputy Chairman)	17 Apr 2011	16 Apr 2016
Dr W Craik AM (C)	4 Jun 2009	3 Jun 2014
Mr R Fitzgerald AM (C)	27 Jan 2009	26 Jan 2014
Ms A McClelland (M) (p/t)	8 Dec 2010	7 Dec 2015
Ms A MacRae (M) (p/t)	8 Dec 2010	7 Dec 2015
Ms S McKenna (M) (p/t)	4 Jun 2009	3 Jun 2014
Dr W Mundy (C) (p/t)	8 Dec 2010	7 Dec 2015
Ms P Scott (C)	7 Sep 2009	6 Sep 2014
Ms L Sylvan (C)	1 Aug 2008	31 July 2013
Mr P Weickhardt (M) (p/t)	4 Dec 2008	3 Dec 2013

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

Table B1.2 **Part-time Associate Commissioners, 30 June 2011**

	<i>Inquiry/Study</i>	<i>Period of appointment<sup>a</sup></i>	
		<i>From</i>	<i>To</i>
Mr J Walsh	Disability Care and Support	14 Apr 2010	13 Oct 2011
Mr J Sutton	Economic Regulation of Airport Services	7 Oct 2010	6 Jan 2012

<sup>a</sup> Engagement ceases at the conclusion of the inquiry/study or the period of appointment, whichever is the earlier

**Table B1.3 Part-time Associate Commissioners completing appointments during 2010-11**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr A Stoler	Bilateral and Regional Trade Agreements.	16 Nov 2009	15 Dec 2010
Mr P Coghlan	Performance Benchmarking of Australian Business Regulation	1 Apr 2010	31 May 2011
Ms S Macri AM	Caring for Older Australians	15 May 2010	31 May 2011
Dr C Samson	Rural Research and Development Corporations	22 Feb 2010	14 Mar 2011
Dr W Mundy	Annual Review of Regulatory Burdens on Business – Business and Consumer Services	9 Dec 2009	30 Sep 2010

**Table B1.4 Employees by location and gender, 30 June 2011**

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	1	1	0	0	0	0	1	1
SES Band 2	1	0	1	1	1	2	2	1	3
SES Band 1	0	8	8	1	6	7	1	14	15
Staff Level 4	10	13	23	7	18	25	17	31	48
Staff Level 3	22	11	33	6	7	13	28	18	46
Staff Level 2	22	17	39	7	11	18	29	28	57
Staff Level 1	12	5	17	8	2	10	20	7	27
<b>Total<sup>b</sup></b>	<b>67</b>	<b>55</b>	<b>122</b>	<b>30</b>	<b>45</b>	<b>75</b>	<b>97</b>	<b>100</b>	<b>197</b>
Corresponding totals at 30 June 2010 <sup>a</sup>	64	51	115	28	46	74	92	97	189

<sup>a</sup> Totals exclude 7 inoperative employees at 30 June 2010. <sup>b</sup> Totals exclude 6 inoperative employees at 30 June 2011; 2011 totals also include 1 acting SL3, and 3 acting SL2s.

**Table B1.5 Employees by employment status and gender, 30 June 2011**

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	2	0	2	1	0	1	3	0	3
SES Band 1	1	0	1	14	0	14	15	0	15
Staff Level 4	12	5	17	28	3	31	40	8	48
Staff Level 3	22	6	28	18	0	18	40	6	46
Staff Level 2	21	8	29	25	3	28	46	11	57
Staff Level 1	14	6	20	7	0	7	21	6	27
<b>Total<sup>b</sup></b>	<b>72</b>	<b>25</b>	<b>97</b>	<b>94</b>	<b>6</b>	<b>100</b>	<b>166</b>	<b>31</b>	<b>197</b>
Corresponding totals at 30 June 2010 <sup>a</sup>	67	25	92	93	4	97	160	29	189

<sup>a</sup> Totals exclude 7 inoperative employees at 30 June 2010. <sup>b</sup> Totals exclude 6 inoperative employees at 30 June 2011; 2011 totals also include 1 acting SL3, and 3 acting SL2s.

**Table B1.6 Employees by level and reason for separation, 2010-11**

Level	Promotion	Transfer	Resignation	Invalidity			Other	Total
				Retirement	VRP <sup>a</sup>			
SES	0	0	0	0	0	0	0	0
Staff Level 4	0	1	3	0	0	0	4	4
Staff Level 3	0	2	2	0	0	1	5	5
Staff Level 2	1	2	5	0	0	0	8	8
Staff Level 1	0	1	3	0	0	0	4	4
<b>Total</b>	<b>1</b>	<b>6</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>21</b>	<b>21</b>
Corresponding totals at 30 June 2010	0	5	6	1	0	0	12	12

<sup>a</sup> Voluntary Redundancy Package

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## Attachment B2

### Agency Resource Statement — 2010-11

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	<i>Actual Available Appropriation 2010-11</i>	<i>Payments Made 2010-11</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
<b>Ordinary Annual Services</b>			
<b>Departmental appropriation<sup>1</sup></b>			
Prior year Departmental appropriation	10 201		
Departmental appropriation 2010-11	41 424	35 828	
<b>S.31 Relevant agency receipts<sup>2</sup></b>	2 708	2 708	
<b>Total ordinary annual services</b>	<u>54 333</u>	<u>38 536</u>	<u>15 797</u>
<b>Total Resourcing and Payments</b>	<u><b>54 333</b></u>	<u><b>38 536</b></u>	<u><b>15 797</b></u>

<sup>1</sup> Appropriation Bill (No.1) 2010-11 and Appropriation Bill (No.3) 2010-11.

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

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**Australian Government**  
**Productivity Commission**

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Canberra City ACT 2601  
Telephone 02 6240 3202  
Facsimile 02 6240 3300  
[www.pc.gov.au](http://www.pc.gov.au)

***From the Chairman's Office***

24 August 2011

### **Annual Report 2010-11 – Fraud Control Certification**

In accordance with Guideline 5.8 of the *Commonwealth Fraud Control Guidelines 2011* (the Guidelines), issued pursuant to Regulation 16A 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 fraud control plans;
- in place appropriate fraud prevention, detection and investigation and reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Guidelines; and
- taken all reasonable measures to minimise the incidence of fraud in the Commission and to investigate and recover the proceeds of fraud against the Commission.

A handwritten signature in black ink, appearing to read 'G. Banks'.

Gary Banks AO  
Chairman

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## Attachment B4

### 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 is \$80 000, which aligns with the mandatory open tender threshold set out in the procurement guidelines.

### Purposes

The main purpose for which consultants were engaged in 2010-11 was to referee particular pieces of work.

### Consultancies over \$10 000

The following table lists those consultancies let in 2010-11 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 contracts may be for periods in excess of one year.

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## Consultancy contracts let in 2010-11 valued at \$10 000 or more

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<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract Amount</i>	<i>Selection Process (1)</i>	<i>Justification (2)</i>
Applied Aged Care Solutions Pty Ltd	Aged Care Modelling	18 000	3	B
<b>Total</b>		<b>18 000</b>		

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### **(1) Procurement Method**

1. Open Tender
2. Select Tender
3. Direct Sourcing
4. Panel

### **(2) Reason for Contract**

- A. skills currently unavailable within agency
- B. need for specialised or professional skills
- C. need for an independent research or assessment

### **GST**

All figures are GST inclusive.

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## **Attachment B5**

### **Freedom of Information Statement**

From 1 May 2011 agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. An agency plan showing what information is published in accordance with the IPS requirements is accessible from agency websites.

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982* for the period 1 July 2010 to 30 April 2011.

### **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 summon 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.

The Commission periodically invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program. The Commission also meets with academics in various cities for the same purpose.

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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 project records including information circulars, issues papers, project guidelines, draft and final reports, submissions, participant correspondence and public hearing transcripts
- documents relating to 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
- 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.

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## Facilities for access

Information circulars, issues 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 CanPrint Communications 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.

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

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## Attachment B6

### Compliance index

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

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### ***Compliance with the Productivity Commission Act***

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

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

In association with this annual report, the Commission is preparing one companion publication:

- *Trade & Assistance Review 2010-11*

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## C Program performance

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

**The Commission's four main activity streams are public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, competitive neutrality complaints activities, and supporting research and statutory annual reporting. This appendix sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's main activities and related performance in 2010-11.**

### **Objectives for performance assessment**

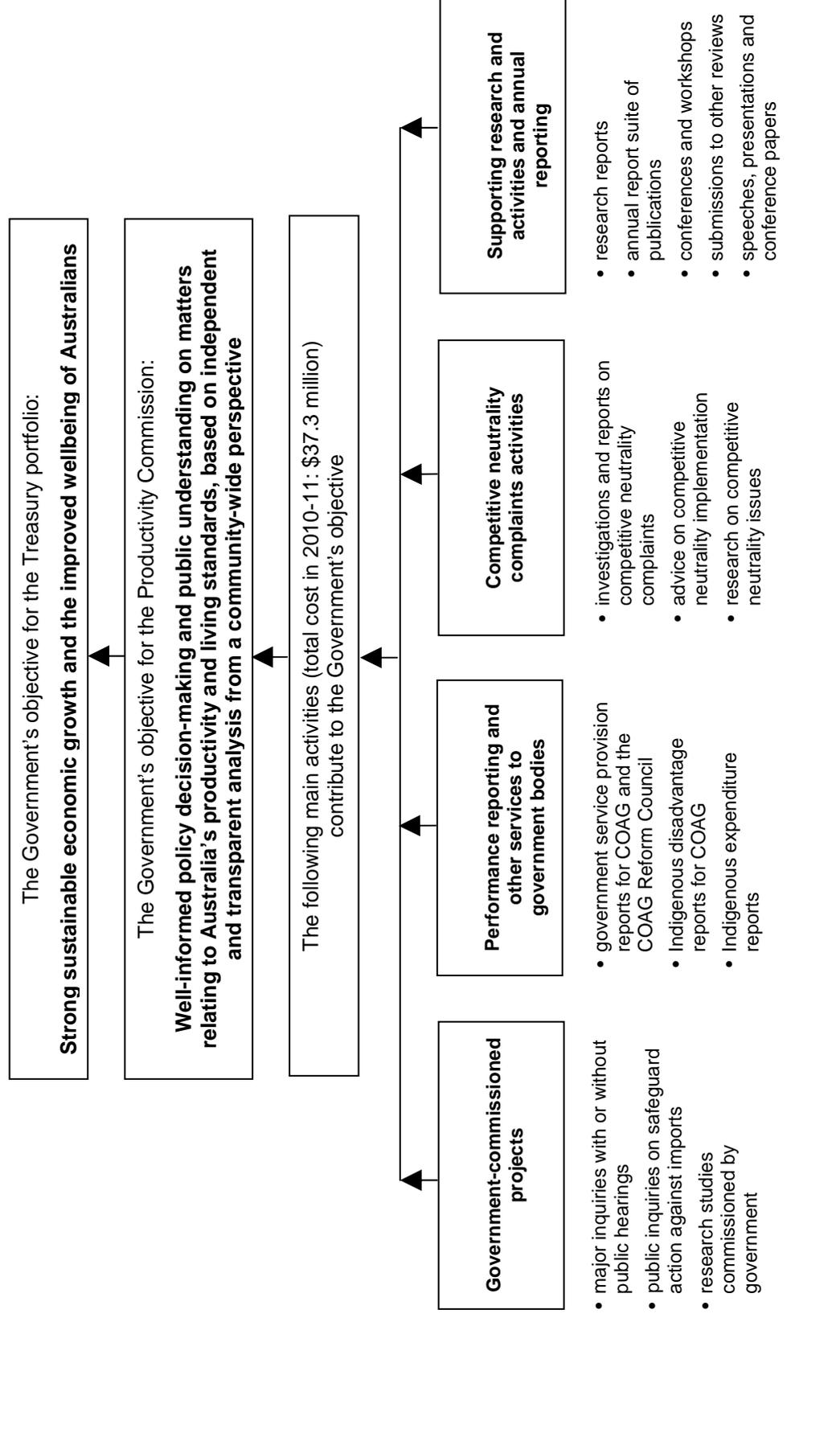
The Government's outcome objective against which the Commission's overall performance is to be assessed is:

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

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

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

**Figure C.1 Productivity Commission main activities 2010-11**



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

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

### **Commission activities**

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

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

#### *Commissioned projects*

Government-commissioned projects have individual terms of reference.

*Public inquiries* involve extensive public consultation — 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 feedback on the Commission's analysis and proposed recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'Position Paper' as part of this consultation process before finalising its report to government. Inquiry reports are tabled in Parliament.

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

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## *Standing functions*

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

- secretariat and research services for the Steering Committee for the Review of Government Service Provision. As an integral part of the national performance reporting system, the Steering Committee informs Australians about services provided by governments and enables performance comparisons between jurisdictions and within a jurisdiction over time (SCRGSP Terms of Reference). The Steering Committee is required to:
  - measure and publish annually data on the equity, efficiency and cost effectiveness of government services through the *Report on Government Services*
  - produce and publish the regular *Overcoming Indigenous Disadvantage* report
  - collate and prepare performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council and the broader national performance reporting system
  - initiate research and report annually on improvements and innovation in service provision, having regard to the COAG Reform Council’s task of highlighting examples of good practice and perform any other related tasks referred to it by COAG
  - produce the two-yearly *Indigenous Expenditure Report*, contributing to better policy making and improved outcomes for Indigenous Australians by reporting on expenditure on Indigenous-specific and mainstream services which support Indigenous Australians
- national and international benchmarking of key economic infrastructure industries. The Commission has some discretion in the choice of industry and the timing, guided by an assessment of the Government’s policy needs
- reports and related activities necessary to meet the Commission’s statutory obligation to investigate complaints that an Australian Government business is not conducted in accordance with 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.

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### *Supporting research*

The Commission also has a statutory mandate to conduct its own program of research to support its annual reporting and other responsibilities, and to promote community awareness and understanding of productivity and regulatory issues. This program of supporting research is guided by government statements on policy priorities and parliamentary debate and committee work, and 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 two 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 that apply across its main activities (box C.1). Subsequent sections of this appendix report against these indicators for each of its main activities. Feedback surveys undertaken, use of Commission work in the parliamentary process, and some general indicators of effectiveness are also reported below.

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

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### Box C.1 Performance indicators for the Commission

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

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

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

Third, the Commission has to give priority to certain projects and allocates its resources accordingly. The quantum and scope of the Commission's work are, to a significant extent, determined externally. This includes the number and timing of government-commissioned projects and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Government Service Provision is guided by a Steering Committee. As a consequence, the number and timeliness of projects from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other standing commitments.

Fourth, the Commission has no control over the release of its final inquiry reports (unlike its draft reports), although the *Productivity Commission Act 1998* requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports 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

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## Box C.2 Longer-term influence

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

- The introduction by the Australian Government of a new consumer law and product safety reporting requirements drew on recommendations made in the Commission's 2006 study of consumer product safety (PC 2006d) and its 2008 inquiry into consumer policy (PC 2008h).
- In discussing the introduction of the Food Standards Australia New Zealand Amendment Bill 2010 on 30 September 2010, Catherine King, the Parliamentary Secretary for Infrastructure and Transport, stated:

This amendment is part of a package of reforms being pursued by the government in relation to the regulation of chemicals and plastics which followed a study by the Productivity Commission in 2008.
- The final report of the Building the Education Revolution Implementation Taskforce, published in July 2011, drew on past work by the Commission and recommended that it be asked to update the Industry Commission's 1991 work on the construction industry (IC 1991).
- In November 2010 the OECD drew on a range of past Commission work in its Economic Survey of Australia (OECD 2010a), including estimates of reform benefits from the Commission's 2005 review of national competition policy.
- The Australian National Audit Office continued to make widespread use of past Commission reports in its work. For example, Audit Report No. 5 from 2010-11 on the *Practice Incentives Program* drew on analysis and findings in the Commission's 2002 report on General Practice Administrative and compliance costs. Audit Report No. 47 on *The Development and Administration of National Research Flagships* drew on the Commission's 2007 report on science and innovation.
- Past Commission reports on a range of subjects also continued to inform the work of the Parliamentary Library. For example: the Commission's 2006 research report on the economic impacts of migration and population growth was used in a Pre-Election Policy Unit Paper on the economics of a sustainable population in November 2010; work by the Commission from 1999 on international benchmarking of telecommunications prices was used in a Bills Digest for the Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Bill 2010; and a Commission inquiry report on workers compensation and OH&S from 2004 was used by the Library in several background notes and Bills Digests.
- The Australian Competition and Consumer Commission continued to use past Commission reports to inform its work during the year. For example, it drew on several Commission reports, including a 2003 Commission report on benchmarking container stevedoring and a 1998 report on stevedoring work arrangements, in a monitoring report on container stevedoring in October 2010 (ACCC 2010a). It also drew on Commission reports from 1999 on competition policy reforms in a paper on infrastructure reforms and regulation (ACCC 2010c).

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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 2010-11 were tabled within the statutory period.

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

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

## **Feedback surveys**

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

The results of past surveys were reported in previous annual reports 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 and the quality and usefulness of the Commission's supporting research program.

### *Survey on the Report on Government Services*

The Steering Committee for the Review of Government Service Provision has sought feedback on the usefulness of the Report on Government Services on a three yearly basis and used the feedback to increase the accountability of the Review. Survey results were reported in the 2007-08 Annual Report.

The feedback survey scheduled for 2010 was postponed pending the outcome of a review of the Steering Committee's Report on Government Services, commissioned by COAG in 2009. Outcomes of the review are discussed in the section 'Other evidence'.

### *Other feedback*

As noted in chapter 2, the Commission continued to provide feedback opportunities through email, on-line surveys, and survey forms included in publications or issued

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to participants in the Commission's public hearings. Much of the feedback received through these mechanisms this year was positive. Comments are passed to management and authors for consideration.

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

The inquiries and reports which figured most prominently in federal parliamentary debate during 2010-11 were the Commission's reports on emissions reduction policies and carbon pricing, disability care and support, executive remuneration and aged care. As noted in chapter 2, 86 Members of the House of Representatives and 47 Senators referred to 48 different Commission reports or inquiries, or to the Commission's role in policy processes, during the 2010-11 parliamentary proceedings.

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

- Eight parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports during the year. The ten recent parliamentary committee reports listed in table C.1 referred to ten different Commission outputs.
- Research material provided to parliamentarians during 2010-11 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 18 different Commission outputs (table C.2). These included 11 inquiry and other commissioned research reports and several research papers.
- People appearing at the hearings of parliamentary committees in 2010-11 referred to Commission outputs in more than 24 different topic areas.

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

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2010-11 the ANAO drew on analysis and recommendations in the Commission's 2009 report on government drought support in Audit Report No. 52, *Drought Assistance*. Findings and analysis in the Commission's 2010 report on the contribution of the not for profit sector were drawn on in Audit Report No. 52, *Administration of Deductible Gift Recipients (Non-profit Sector)*. The ANAO also drew on findings and analysis from the Commission's December 2010 draft report on caring for older Australians, the 2010 Report on Government Services and the 2009 *Annual Review of Regulatory Burdens on Business* in Audit Report No. 48, *Monitoring and Compliance Arrangements Supporting Quality of Care in Residential Aged Care Homes*. The ANAO drew on the Commission's 2007 report on science and innovation in Audit Report No. 47, *The Development and*

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*Administration of National Research Flagships*. The Commission's report of March 2010 on mechanisms to purchase water entitlements was used in Audit Report No. 27, *Restoring the Balance in the Murray-Darling Basin*. The Steering Committee for the Review of Government Service Provision's 2009 report on *Overcoming Indigenous Disadvantage* was used in Audit Report No. 23, *Home Ownership on Indigenous Land Program*, and in Audit Report No. 18 on *Government Business Managers in Aboriginal Communities under the Northern Territory Emergency Response*. The Commission's 2009 report, *Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety*, was referred to in Audit Report No. 15 on *Food Standards Australia New Zealand*. Audit Report No. 5 on the *Practice Incentives Program* drew on analysis and findings in the Commission's 2002 report on general practice administrative and compliance costs.

### *Estimates appearances*

The Commission is also invited to appear regularly before Senate Estimates to assist the work of Federal Parliament and facilitate scrutiny of its work. It was requested to attend Senate Estimates hearings on three occasions in 2010-11. Appearances by the Chairman and senior staff before the Senate Standing Committee on Economics occurred on 21 October 2010, 23 February 2011 and 2 June 2011. Hansard of the appearances is available on the Parliament of Australia website.

**Table C.1 Use of Commission publications in parliamentary committee reports in 2010-11**

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Community Affairs Legislation Committee, <i>Exposure Draft and Paid Parental Leave Bill 2010 [Provisions]</i> , June 2010	Inquiry Report, <i>Paid parental leave: support for parents with newborn children</i> , February 2009
Senate Community Affairs Legislation Committee, <i>Food Standards Australia New Zealand Amendment Bill 2010 [Provisions]</i> , June 2010	Research Report, <i>Chemicals and Plastics Regulation</i> , July 2008
Senate Economics Legislation Committee, <i>Tax Laws Amendment (Research and Development) Bill 2010 [Provisions] and Income Tax Rates Amendment (Research and Development) Bill 2010 [Provisions]</i> , June 2010	Research Report, <i>Public Support for Science and Innovation</i> , March 2007
House of Representatives Standing Committee on Health and Ageing, <i>Roundtable forum on burns prevention</i> , July 2010	Steering Committee for the Review of Government Services Provision, <i>Report on Government Services 2010</i> , January 2010
Senate Economics Committee, <i>The regulation, registration and remuneration of insolvency practitioners in Australia</i> , September 2010	Research Report, <i>Annual Review of Regulatory Burdens on Business: Business and Consumer Services</i> , October 2010
Senate Environment and Communications References Committee, <i>Sustainable management by the Commonwealth of water resources</i> , October 2010	Research Report, <i>Market Mechanisms for Recovering Water in the Murray-Darling Basin</i> , March 2010
Senate Community Affairs References Committee, <i>Consumer Access to Pharmaceutical Benefits</i> , November 2010	Research Report, <i>Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades</i> , September 2008
House of Representatives Standing Committee on Regional Australia, <i>Of drought and flooding rains: Inquiry into the impact of the Guide to the Murray-Darling Basin Plan</i> , May 2011	Research Report, <i>Rural Water Use and the Environment: The Role of Market Mechanisms</i> , March 2006; Research Report, <i>Market Mechanisms for Recovering Water in the Murray-Darling Basin</i> , March 2010
Joint Select Committee on Gambling Reform, <i>First report: The design and implementation of a mandatory pre-commitment system for electronic gaming machines</i> , May 2011	Inquiry Report, <i>Gambling</i> , February 2010
Senate Economics Legislation Committee, <i>Customs Amendment (Anti-dumping Measures) Bill 2011 [Provisions]</i> , June 2011	Inquiry Report, <i>Australia's Anti-dumping and Countervailing System</i> , December 2009

**Table C.2 Parliamentary Library use of Commission publications in 2010-11**

<i>Parliamentary Library output 2010-11</i>	<i>Commission output used</i>
<i>Commonwealth Indigenous-specific expenditure 1968–2010</i> , Background Note, September 2010	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2009</i>
<i>Parliamentary Library Briefing Book: Key Issues for the 43rd Parliament</i> , Briefing Book, September 2010	Inquiry Issues Paper, <i>Disability Care and Support</i> , May 2010; Inquiry Issues Paper, <i>Caring for Older Australians</i> , May 2010; Commission Research Paper, <i>Trends in Aged Care Services: some implications</i> , September 2008
<i>Food Standards Australia New Zealand Amendment Bill 2010</i> , Bills Digest No 11, October 2010	Draft Research Report, <i>Chemicals and Plastics Regulation</i> , March 2008; Research Report, <i>Chemicals and Plastics Regulation</i> , July 2008
<i>Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Bill 2010</i> , Bills Digest No 45, November 2010	International Benchmarking Report, <i>International Benchmarking of Telecommunications Prices and Price Changes</i> , December 1999
<i>Going digital: tracing the transition to digital terrestrial television in Australia</i> , Research Paper No 7, November 2010	Inquiry Report, <i>Broadcasting</i> , March 2000
<i>The economics of a sustainable population</i> , Pre-Election Policy Unit Paper, November 2010	Research Report, <i>Economic impacts of migration and population growth</i> , April 2006; Staff Working Paper, <i>Recent Trends in Australian Fertility</i> , July 2008
<i>National Health and Hospitals Network Bill 2010</i> , Bills Digest No 46, November 2010	Steering Committee for the Review of Government Services Provision, <i>Report on Government Services 2010</i>
<i>Paternalism in social policy—when is it justifiable?</i> , Research Paper No 8, December 2010	Inquiry Report, <i>Gambling</i> , February 2010
<i>Of the plan: Commonwealth city planning systems</i> , Background Note, December 2010	Draft Research Report, <i>Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments</i> , February 2011
<i>Toward national workplace safety and workers' compensation systems: a chronology</i> , Background Note, December 2010	Inquiry Report, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i> , March 2004
<i>Australian Government funding for schools explained</i> , Background Note, January 2011	Steering Committee for the Review of Government Services Provision, <i>Report on Government Services 2010</i>

<p><i>National Health and Hospitals Network Bill 2010, Bills Digest No 46, April 2011</i></p>	<p>Steering Committee for the Review of Government Services Provision, <i>Report on Government Services 2010</i></p>
<p><i>Safety, Rehabilitation and Compensation and Other Legislation Amendment Bill 2011, Bills Digest No 95, May 2011</i></p>	<p>Inquiry Report, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i>, March 2004</p>
<p><i>Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Bill 2011, Bills Digest No 99, May 2011</i></p>	<p>Draft Inquiry Report, <i>Disability Care and Support</i>, February 2011</p>
<p><i>Budget Review 2011-12, Research Paper No 13, May 2011</i></p>	<p>Steering Committee for the Review of Government Services Provision, <i>Report on Government Services 2010</i>; ; Draft Inquiry Report, <i>Caring for Older Australians</i>, January 2011; Research Report, <i>Contribution of the Not-For-Profit Sector</i>, February 2010</p>
<p><i>Family Assistance and Other Legislation Amendment (Child Care and Other Measures) Bill 2011, Bills Digest No 116, June 2011</i></p>	<p>Research Report, <i>Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services</i>, September 2009</p>
<p><i>Aged Care Amendment Bill 2011, Bills Digest No 148, June 2011</i></p>	<p>Draft Inquiry Report, <i>Caring for Older Australians</i>, December 2010; Commission Research Paper, <i>Trends in Aged Care Services: some implications</i>, September 2008</p>

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## Other evidence

In addition to the performance indicators for 2010-11 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.

- When announcing the release of the Commission's report on bilateral and regional trade agreements in December 2010, the Assistant Treasurer, the Hon. Bill Shorten noted the strong public engagement with the review, and stated:

The report and the diverse variety of submissions reveal the complexity of the issues and highlight the range of differing views which exist in the community. (Emerson and Shorten 2010)

- The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, when discussing disability care and support in July 2011, stated:

... we understand that there is more to be done and that is why the government gave a very important reference to the Productivity Commission that asks them to inquire into the feasibility of a long-term care and support initiative for people with disability. It has never been done before in this country. It is a very important initiative and we look forward to receiving the Productivity Commission's final report at the end of this month.

- In November 2010 the Minister for Climate Change and Energy Efficiency, the Hon. Greg Combet, discussed the Commission's work on carbon pricing, stating:

I think we need to get as much rigour into that sort of analysis as possible and that's why we are going to the Productivity Commission to do it. (Combet 2010)

- In its latest trade policy review of Australia, published in March 2011, the World Trade Organization stated:

Australia's trade policy framework continues to be characterized by an unusually high degree of transparency. This involves rigorous economic analysis undertaken by government institutions and independent advisory bodies (notably the Productivity Commission). (WTO 2011)

- During the year COAG identified several further areas where Commission projects would assist it with its work. These included.

- 
- a request by the Australian Government, with the agreement of COAG's Business Regulation and Competition Working Group, to examine the role of local government as a regulator
  - a commitment to develop terms of reference for a future benchmarking review of regulation impact assessment processes.
  - In March 2011 the Government also announced that the Commission would be asked to assist COAG's Business Regulation and Competition Working Group in aspects of its development of a future reform agenda to cut red tape (Sherry and Wong 2011).
  - On 30 September 2010 the Australian Parliament agreed that a Joint Select Committee on Gambling Reform be appointed. Included in its tasks were to inquire and report on appropriate terms of reference, to be set by no later than 30 June 2013, of a further Productivity Commission Inquiry to examine the impact of pre-commitment schemes on problem gambling and to determine what further harm minimisation measures may be necessary.
  - The Federal Opposition proposed a number of tasks for the Commission during the year, including that it:
    - be 'reshaped as the Productivity and Sustainability Commission' and inquire into and recommend future population policies (Abbott, Morrison and Bernardi 2010)
    - conduct a comprehensive cost-benefit analysis of the National Broadband Network (Turnbull 2010)
    - be asked to undertake an inquiry into foreign ownership of agricultural land in Australia (Cobb 2011)
    - have its mandate broadened to include the regular consideration of immigration policy (Morrison 2011)
    - undertake a comprehensive study of the economic consequences of the Murray Darling Basin plan (Joyce 2010).
  - The Australian Greens proposed that the Commission be asked to undertake several strands of new work during the year, including that it:
    - examine a range of issues concerning the establishment of a sovereign wealth fund in Australia (Brown 2011)
    - conduct an inquiry prior to any future privatisation of the National Broadband Network (Ludlam 2010)
    - undertake an inquiry into childcare services (Hanson-Young 2010).

- 
- The Australian Greens also welcomed the announcement of the Commission's study on international carbon policies, stating that the study would provide 'an invaluable contribution to the carbon price debate'. (Milne 2010)
  - In October 2010 the OECD discussed the role of the Commission in regulatory reform, and stated that it:

... provides one successful example of institutional support for policy coherence. It provides objective support, at an arm's length from government and the political process, for identifying what reforms are needed and how these need to be translated into the regulatory framework. This helps to achieve coherence through the policy and regulatory cycle. (OECD 2010c, p. 41)
  - In July 2010 the final report of the (Cooper) Review of the Superannuation System proposed a number of tasks for the Commission, including that it be asked to review the processes by which default superannuation funds are nominated in awards, and that it be asked to review the operation of the MySuper regime in five years' time.
  - The final report of the Building the Education Revolution Implementation Taskforce, published in July 2011, recommended that the Commission be asked to update its 1991 work on the construction industry (BERIT 2011).
  - The report of the Australian Government's Policy Transition Group (2010) on minerals and petroleum exploration, released in December 2010, recommended that the Commission be asked to undertake an examination of regulatory barriers faced by exploration companies and present its report to COAG for action by Australian jurisdictions.
  - In July 2011, the Government announced several significant new tasks for the Commission as part of its *Clean Energy Future Plan*. These include reviews of industry assistance under the Jobs and Competitiveness Program and the Coal Sector Jobs Package; reviews of the impact of the carbon price on industry; continued reporting on actions by other countries to reduce carbon pollution; and a review of fuel excise arrangements, including an examination of the merits of a regime based explicitly and precisely on the carbon and energy content of fuels (Australian Government 2011a, pp 111-112).
  - In July 2011 the Tasman Transparency Group recommended that the Commission should conduct independent reviews of all proposed trade agreements before they are agreed to by the Federal Government (Jean 2011).
  - In January 2011 the Insurance Council of Australia called for annual reporting by the Commission on the effectiveness of State and Federal disaster relief payments.

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- In February 2011 the Urban Development Institute called for the Commission to be asked to conduct an inquiry into financing local infrastructure and examining the growth and impact of development levies.
  - The Secretary of the Department of Finance and Deregulation, David Tune, supported an expanded role for the Commission in undertaking evaluations, noting that:

... the extent to which agencies are in a position to conduct independent assessments of programs varies – perhaps there are opportunities for more involvement from the Productivity Commission. (Tune 2010)
  - The Australian Institute of Company Directors called in July 2010 for the Commission to be tasked with conducting ongoing reviews of the costs to business of any future proposed regulations.
  - In June 2011 the Assistant Treasurer, the Hon. Bill Shorten stated that the Commission would be asked to conduct an inquiry into default superannuation funds prior to the introduction of the MySuper reforms in July 2013 (Gluyas 2011).
  - In November 2010 the Alliance for Affordable Broadband published an open letter calling for the costs and benefits of the National Broadband Network proposal to be referred to the Commission (Alliance for Affordable Broadband 2010).
  - Parliamentary Committees also continued to draw on Commission reports to inform their work and to recommend new work for the Commission. For example:
    - In August 2010, the Senate Select Committee on Agricultural and Related Industries recommended that the Commission undertake an examination of bushfire risk from ageing power infrastructure, including an assessment of replacement costs and likely suppression costs from bushfires caused by defective infrastructure. The Committee also recommended that the Commission be tasked to assess the economic effects of recent major bushfires on the Australian economy to determine the cost effectiveness of prescribed burning as a mitigation strategy.
    - In May 2011, the Senate Economics References Committee recommended that the Commission conduct a feasibility study into Australia Post becoming a distribution channel for smaller banks, credit unions and mutuals.
    - In June 2011, the Senate Rural Affairs and Transport References Committee recommended that the Commission or a similar body undertake a review of the current and future supply of pilots in Australia, with particular reference

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to the general aviation and cadet training pathways, and HECS HELP and VET FEEHELP arrangements.

- In May 2010 the Australian Academy of Technological Sciences and Engineering (ATSE 2010) recommended that the Commission be tasked with carrying out a study on the potential uses of technology in maintaining older Australians in their own homes.
- A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including defence procurement; public service costs; dairy market competition; flexible working arrangements; climate change adaptation; pharmacy ownership and location rules; private health insurance; taxation reform; small business finance; the level of competition in the banking sector; water pricing; cost burdens on families; the Australian prison system; the efficiency of state government; the effects of further labour market deregulation; business insolvencies; rural adjustment; the potential effects of democratic reforms; regional fuel pricing; banking services; budget expenditures with supply side implications; the costs and benefits of prohibiting drugs; food security; the effects of noise and related land use policies; and the costs and benefits of a proposed very fast rail network.
- Throughout the year, various peak bodies also continued to call for the Commission to be requested to undertake a diverse range of work. For example:
  - In September 2010 the Business Council of Australia called for the Commission to be tasked with conducting regular infrastructure audits (Bradley 2010). In November 2010 the Council suggested that the Commission should be urged to conduct regular reviews of new regulation (BCA 2010). Also in November 2010, the Council supported calls for the Commission to be tasked with conducting a cost-benefit analysis of the National Broadband Network (Lahey 2010).
  - The Australian Chamber of Commerce and Industry called for the Commission to be asked to conduct an inquiry examining the degree of competition in the provision of business finance (ACCI 2011).
  - The Master Builders' Association called for the Commission to conduct an independent inquiry into the banking system (Master Builders' Association 2011).
- Malaysia's Tenth Economic Plan, published in June 2010, cited the Commission as an institution that represented international best practice in providing an economic review mechanism (EPU 2010, p. 74).

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- Catholic Health Australia called for the Commission to be tasked to review the role and impact of ‘out of pocket health costs’ in July 2010 (CHA 2010).
  - In August 2010 the heads of the Australasian Railway Association, Bus Industry Confederation, Cycling Promotion Fund and International Association of Public Transport called for a Commission inquiry into the true costs of externalities affecting the planning, uptake and funding of public transport (Goeldner 2010).
  - In September 2010, the Chairman of the Australian Nuclear Science and Technology Organisation (ANSTO), Dr Ziggy Switkowski, called for the Commission to be asked to undertake a study of all future energy options in Australia.
  - The Department of Treasury’s Incoming Government Brief, released in March 2011, contained several suggestions for further Commission work, including work on climate change adaptation policies and on population issues.
  - In September 2010 the NSW Business Chamber recommended that the Commission be asked to review ‘horizontal fiscal equalisation’ and compare it with other federations, and that the Commission investigate whether a single body should administer all state and federal taxes (Boxsell 2010).
  - General endorsement of the Commission’s role and work can also be found in various proposals for new agencies to be modelled on it. For example:
    - The 2011 report of the Garnaut Review discussed the role of an independent agency to consider assistance to emissions-intensive, trade-exposed industries and stated:

The agency would have features similar to the Productivity Commission and could be the Productivity Commission...The independent agency would be backed with the necessary resources and would have the professional capacity to do this job well. It would operate transparently in the manner of the Productivity Commission, exposing its methodology and data sources for public comment. (Garnaut Climate Change Review 2011, p. 85)
    - A recent report by the Joint Select Committee on the Parliamentary Budget Office (March 2011) considered a range of options for the establishment of a Parliamentary Budget Office, including that it have institutional features similar to the Commission.
    - In its 2010 Economic Survey of Indonesia, the OECD stated that:

OECD experience suggests that permanent and independent institutions to investigate the benefits of reforms often carry more weight than *ad hoc* working groups or commissions. A well-known example is the Productivity Commission, whose reports significantly influence the debate on reforms... In the case of

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Indonesia, these tasks could be conferred to an independent productivity commission. Such an institution could be created as a permanent body, which would be used subsequently to estimate the benefits of reforms in a wider range of areas. (OECD 2010d, p. 86)

- New Zealand has established its own Productivity Commission, an independent Crown Entity that began operating on 1 April 2011.

### *Citations in journals and elsewhere*

In addition to the parliamentary, media and other coverage reported elsewhere in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of over 182 mentions of the Commission and its reports in 2010-11 in a wide range of journals and other publications. These covered 76 different reports, papers, speeches and work in progress. The reports receiving the most number of citations were the annual *Report on Government Services* from various years, the *Overcoming Indigenous Disadvantage* reports, the study on the health workforce (2005c), and inquiries on Australia's consumer policy framework (2008h) and aged care (2011a). The Commission's work was cited in 92 different journals and publications.

### *COAG review of the Report on Government Services*

COAG agreed in 2009 to a review of the *Report on Government Services* (RoGS), to be undertaken by a combined Senior Officials and Heads of Treasuries Working Group. COAG endorsed the review's recommendations at its 7 December 2009 meeting. These recommendations included:

- RoGS to continue to be the key tool to measure and report on the productive efficiency and cost effectiveness of government services
- the Chair of the Productivity Commission should remain Chair of the Steering Committee and the Productivity Commission should continue to provide secretariat support to the SCRGSP
- new Terms of Reference should be prepared that acknowledge the RoGS is part of and supports the new federal financial relations framework, and that enhance the authority and strategic nature of the Steering Committee.

COAG endorsed new terms of reference and a charter of operations in April 2010. The Steering Committee will report to COAG on its operations triennially, beginning in 2012.

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## **Government-commissioned projects**

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

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

All government-commissioned inquiries in 2010-11 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 2010-11**

The Commission had seven public inquiries and nine government-commissioned research studies underway at some time during the year. The program of government-commissioned projects is summarised in table C.3, although the varying complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2010-11 the Commission:

- completed three public inquiries begun in 2009-10 — on wheat marketing arrangements, rural research and development corporations, and aged care
- commenced three other new public inquiries, which are due for completion in 2011-12, on urban water, the economic regulation of airport services and the structure and performance of the Australian retail industry.

**Table C.3 Program of public inquiries and other government-commissioned projects<sup>a</sup>**

Month	2009-10					2010-11					2011-12												
	J	F	M	A	M	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
<b>Public inquiries:</b>																							
Wheat																							
Rural Research and Development Corporations																							
Caring for Older Australians																							
Disability care and support																							
Australia's Urban Water Sector																							
Economic Regulation of Airport Services																							
Structure and Performance of the Retail Industry																							
<b>Commissioned research studies:</b>																							
Bilateral and Regional Trade Agreements																							
Education and Training Workforce – VET																							
Regulatory Burdens: Business and consumer services																							
Regulation Benchmarking: Planning and zoning																							
Impacts and benefits of COAG reforms <sup>b</sup>																							
Education and Training Workforce – ECD																							
Emissions Reduction Policies and Carbon Prices																							
Education and Training Workforce – Schools																							
Regulatory Burdens: Regulation reforms																							
Regulation Benchmarking: Role of Local Government																							

<sup>a</sup> Shaded area indicates the approximate duration of the project in the period covered by the table. <sup>b</sup> Includes consideration of Vocational Education and Training and Seamless National Economy reforms.

Research studies commissioned by the Government were a significant component of the Commission's workload again in 2010-11 (figure 2.1). During the year the Commission:

- finalised five government-commissioned research studies begun the previous year — a review of the regulatory burdens on business in the business and consumer services sectors, a business regulation benchmarking study on planning and zoning and land development assessments, and studies on bilateral and regional trade agreements, the VET education and training workforce, and impacts and benefits of COAG reforms
- commenced and completed in the same year a study of emissions reduction policies and carbon prices

- commenced three other new studies — on the schools and early childhood development workforces, and the fifth stage of the review of regulatory burdens on business study (on identifying and evaluating regulatory reforms).

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

**Table C.4 Public inquiry and other commissioned project activity, 2006-07 to 2010-11**

<i>Indicators</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
<b>Public inquiries</b>					
Inquiry references received	2	3	3	4	3
Issues papers released	2	1	3	4	3
Public hearings (sitting days) <sup>a</sup>	28	28	17	28	45
Organisations/people visited	134	124	205	261	361
Submissions received	422	720	749	609	2397
Draft reports <sup>b</sup>	3	2	2	4	4
Inquiry reports completed	4	3	2	3	3
Inquiries on hand (at 30 June)	2	2	3	4	4
<b>Research studies</b>					
References received	3	7	5	5	4
Submissions received	485 <sup>c</sup>	262	972	483	352
Draft reports <sup>b</sup>	3	4	6	11	3
Research reports completed	4	4	7 <sup>d</sup>	7 <sup>d</sup>	4
Studies on hand (at 30 June)	2	5	5	5	3
<b>Total references</b>					
Total references received	5	10	8	9	7
Total references completed	8	7	8	9	7
Total references on hand (at 30 June)	4	7	8	9	7

<sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> Includes all types of draft reports. <sup>c</sup> Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation. <sup>d</sup> Total includes two final reports completed as part of the study on business regulation benchmarking.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the nine inquiries and government-commissioned research studies completed in 2010-11 are shown in table C.5.

**Table C.5 Cost of public inquiries and other commissioned projects completed in 2010-11<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Wheat Export Marketing Arrangements	1 052
Rural Research and Development Corporations	1 460
Caring for Older Australians	2 344
Bilateral and Regional Trade Agreements	1 466
Education and Training Workforce - VET	1 473
Review of Regulatory Burdens on Business – Business and Consumer Services	935
Business Regulation Benchmarking – Stage 4	1 715
Impacts and benefits of COAG Reforms (Framework Report)	405
Emissions Reduction Policies and Carbon Prices	2 100

<sup>a</sup> Includes estimated overheads.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 2006-07 to 2010-11 are shown in table C.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 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), and printing costs and the duration of the inquiry or project.

**Table C.6 Direct administrative expenditure on public inquiries and other government-commissioned projects<sup>a</sup>, 2006-07 to 2010-11**

<i>Expenditure item</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	478	394	546	526	667
Printing	132	108	133	212	183
Consultants	40	402	82	27	28
Other <sup>b</sup>	291	208	251	526	942
<b>Total</b>	<b>942</b>	<b>1 112</b>	<b>1 012</b>	<b>1 291</b>	<b>1 820</b>

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

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## Consultative processes

The practice of consulting widely during inquiries and government-commissioned research projects continued in 2010-11, encompassing government departments and agencies, professional and industry organisations, academics and the broader community.

In the course of its inquiry work over the year, the Commission held 45 public hearings, visited more than 360 individuals and organisations and received more than 2390 submissions.

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

- In conducting its inquiry into *Disability Care and Support*, following receipt of the terms of reference, the Commission placed notices on the inquiry website, advertised in national and metropolitan newspapers and sent a circular to a wide range of individuals and organisations, inviting participation in the inquiry. The Commission then embarked on an extensive round of informal consultations to help it understand the key issues and to become aware of the most appropriate ways of engaging with people with different disabilities. The Commission also commenced discussions with the Independent Panel established by the Government to advise the Commission, and the Commission met with the panel at intervals during the course of the inquiry. In May 2010, the Commission released several inquiry documents in different formats, and an online Auslan presentation, to help people and organisations provide their views to the Commission. These included a full issues paper; a short set of questions addressing the main issues for people wanting to provide a personal response based on their personal experiences (perhaps made in confidence); a short Auslan presentation of the key questions and a text version of the Auslan presentation which was placed on the inquiry website; and an Easy English version of the key issues was also made available. Accompanying this material was a circular that advised participants about the different means by which they could make their views known to the Commission. Public hearings were held in April 2011 to discuss the draft report. In total, the Commission held 23 days of public hearings, at which 237 presentations were made, and received over 1000 public submissions, of which more than 400 were received in response to the draft report.
- In the course of undertaking its inquiry into *Caring for Older Australians*, the Commission advertised the inquiry in national and metropolitan newspapers and sent a circular to around 1900 people and organisations thought likely to have an

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interest in the inquiry. In May 2010 an issues paper was released, inviting submissions from interested parties and indicating some particular matters on which information was sought. From August to October 2010, the Commission held six workshops covering finance and funding, the workforce, care needs and the provision of care, accommodation, technology, and cost projections/modelling. The Commission also held an informal forum on rural and remote area issues. In January 2011, a draft report was released. The report set out the Commission's views and draft recommendations on the matters under reference and sought responses from interested parties via further submissions and hearings. During February and March 2011, the Commission held 13 public hearings in all state and territory capital cities to elicit feedback on the draft report. Over the course of the inquiry informal discussions were also held in Australia with a cross-section of interested parties, including Australian, state and territory and local government agencies. The information gathered through these channels was complemented and augmented by around 925 written submissions from a wide range of interested parties. Of these, around 440 submissions were received in response to the draft report.

Further 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 84 000 external requests for the index pages to submissions for inquiries and commissioned studies current in the year to 30 June 2011.

### **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.

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

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

## **Timeliness**

Of the ten inquiries and commissioned research studies finalised in 2010-11, seven were completed on or ahead of schedule.

Extensions were required for three inquiries and studies:

- The reporting period for the aged care inquiry was extended by approximately eight weeks from the end of April to the end of June. This was to allow sufficient time to consider the large number of submissions provided by stakeholders and was also necessitated by the delay in receiving a key submission.
- An extension of reporting date from December 2010 to April 2011 was granted for the Commission's study into *Benchmarking Business Regulation: Planning, Zoning and Development Assessments*. This was primarily to allow survey recipients sufficient time to provide information required by the study.
- The reporting period for the inquiry into Australia's urban water sector was extended by approximately four weeks to allow time for the further consideration of work being undertaken concurrently by several other organisations.

## **Indicators of usefulness**

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

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## *Government responses*

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

- In April 2011 the Australian Government released a Trade Policy Statement which provided detailed responses to the Commission's report on Bilateral and Regional Trade Agreements. It stated that:

The Productivity Commission's report into bilateral and regional trade agreements released in late 2010 has been closely considered in the preparation of this review, and its policy positions are highly consistent with the Productivity Commission's recommendations. (Australian Government 2011c, p. 16)

The Government accepted nine of the ten recommendations in the Commission's report. The Government agreed in part to the outstanding recommendation, but did not agree with the Commission's view that an independent and transparent assessment of the final text of agreements should be commissioned and published at the conclusion of negotiations, but before an agreement is signed.

- On 10 August 2011 the Australian Government provided an initial response to the Commission's report on Disability Care and Support (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' It also stated that:

In line with the Productivity Commission's recommendations, the Government, with the States and Territories, will start work immediately on building the foundations for reform. We will:

- Deliver an immediate, additional \$10 million, consistent with the PC recommendations, to support this technical policy work;
- Move to establish a COAG Select Council of Ministers from the Commonwealth, States and Territories to lead reform in this area at COAG next month;
- Take steps to establish an Advisory Group to the Select Council, led by Dr Jeff Harmer, to provide expert advice on delivering the foundations for reform and preparation for launch. (Gillard et al. 2011)

The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.

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- The Australian Government released a preliminary government response to the Commission's report on Rural Research and Development Corporations on 15 June 2011. The response stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission's recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.
  - On 25 May 2011, the Hon. Martin Ferguson, Minister for Resources and Energy released the Commonwealth Government's Response to the 2009 Productivity Commission Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector. The Government agreed to a large majority (25 of 30) of the recommendations made in the Commission's report.
  - As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme introduced was closely based on that proposed in the Commission's final inquiry report on Paid Parental Leave. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government initially deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission. Subsequently, in 2011 the Government introduced provision for two weeks paternity leave in line with the Commission's recommendation.
  - The Minister for Home Affairs and Justice, the Hon. Brendan O'Connor, and Minister for Trade, the Hon. Dr Craig Emerson, announced a response to the Commission's report on Australia's Anti-dumping and Countervailing System on 22 June 2011 (Australian Government 2011d). The Government agreed or agreed in-principle with 15 of the report's 20 recommendations. These covered a range of issues, including working groups to examine the close processed agricultural goods provisions; not adopting the practice of zeroing; updating actionable subsidies to align with the latest relevant WTO agreements; arrangements for Customs to seek extensions of investigation periods; the introduction of a 30-day time limit for the Minister to make decisions; adequate resourcing for Customs and Border Protection and the Trade Measures Review Officer; advice to the Minister in investigation reports of the details of comparable recent cases in other countries; consultation with the ABS regarding better access to import data; and a five-year review of proposed reforms. The Government did not accept the Commission's recommendation concerning the introduction of a public interest test.

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- The Australian Government released a response to the Commission's report *Annual Review of Regulatory Burdens on Business – Business and Consumer Services* on 13 September 2011 (Australian Government 2011e). The Commission's report made 18 recommendations, covering issues including government consultation, superannuation, rationalisation of legacy financial products, monetary thresholds applying to overseas investment in Australia and national registration of architects. The Government accepted or accepted in principle ten of the recommendations and noted eight recommendations.
  - On 23 September 2011 the Government released a response to the Commission's report on wheat export marketing arrangements (Australian Government 2011f). The Government agreed in-principle with the Commission's recommendations to abolish the Wheat Export Accreditation Scheme, Wheat Exports Australia and the Wheat Export Charge on 30 September 2011, and remove the access test requirements for grain port terminal operators on 30 September 2014. However it proposed a more gradual, three-stage approach in transitioning to full market deregulation, involving:
    - a first stage introduction of a 'lighter touch' accreditation scheme between 1 October 2011 and 30 September 2012
    - removal in the second stage of Wheat Exports Australia and the Wheat Export Charge from 1 October 2012
    - introduction of full deregulation, with access issues governed by general competition law, in a third stage commencing from 1 October 2014.

In announcing the response, the Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig, stated that:

The Government supports the recommendations provided by the Commission and believes they will improve future wheat marketing arrangements. (Ludwig 2011)

Governments have not always agreed with or accepted the Commission's advice, at least initially. Nevertheless, a review of the Commission's inquiries since its inception in 1998 shows that governments typically adopted a substantial majority of recommendations and generally endorsed its findings (details are provided in table C.7). Further, an assessment of the nature and extent of references made to material in the Commission inquiry reports suggests that those reports have materially contributed to policy debates in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

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### *Further evidence of usefulness*

The contribution of the Commission's inquiry reports and commissioned research studies to public policy is further illustrated by the following:

- In discussing the Commission's report on carbon pricing in June 2011 the Prime Minister, Julia Gillard, said:

Last week's release by the Productivity Commission of its report, I think, was a very important contributor to the understanding that amongst seven of our top trading partners there are, identified in that report, over a thousand policies endeavouring to reduce emissions and of course with varying levels of effectiveness. (Gillard 2011)

- When announcing the release of the Commission's report on bilateral and regional trade agreements in December 2010, the Minister for Trade, the Hon. Craig Emerson, said:

The... report will provide valuable input into the review (of Australia's future trade policy framework). (Emerson and Shorten 2010)

- The introduction of the Australian Consumer Law (Bradbury 2010) drew on recommendations made by the Commission in its review of Australia's consumer policy framework.
- A final scoping study on a national not-for-profit regulator, produced by the Australian Treasury in April 2011, drew extensively on the Commission's 2010 report on the contribution of the not-for-profit sector (PC 2010d). The Government's subsequent announcement in May 2011 of the creation of a single independent regulator for the sector drew on recommendations made in the Commission report (Pro Bono Australia 2011).
- In discussing the introduction of the *Food Standards Australia New Zealand Amendment Bill 2010* on 30 September 2010, Catherine King, the Parliamentary Secretary for Infrastructure and Transport, stated:

This amendment is part of a package of reforms being pursued by the government in relation to the regulation of chemicals and plastics which followed a study by the Productivity Commission in 2008.
- The introduction of mandatory product safety reporting requirements in January 2011 drew on recommendations in the Commission's 2006 study of consumer product safety (PC 2006d).
- The Australian Government's Corporations and Markets Advisory Committee drew on the Commission's 2009 report on executive remuneration in an information paper released in July 2010 (CAMAC 2010).

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- In June 2011 the National Transport Commission (NTC 2011) drew on several Commission reports, including Chemicals and Plastics Regulation (2009) and Potential Benefits of the National Reform Agenda (2007) when discussing reform of road use regulations.
  - A report commissioned by Research Australia in October 2010 (Lateral Economics 2010) drew on a number of past Commission reports on research and development, including PC (2007a) and the Industry Commission's 1995 report (IC 1995b).
  - In discussing the *Offshore Petroleum and Greenhouse Gas Storage Amendment (National Regulator) Bill 2011* on 6 July 2011, the Hon Dick Adams MP stated  
The starting point for these bills is the essential reforms identified by the Productivity Commission report and the report of the Montara Commission of Inquiry.
  - The Australian Competition and Consumer Commission drew on the Commission's 2009 upstream petroleum report when considering the authorisation of joint venture partners in the North West Shelf Gas Project in July 2010 (ACCC 2010).
  - In June 2010 the Rural Industries Research and Development Corporation made use of the Commission's 2009 report on government drought support when studying the decision making of farmers during droughts (RIRDC 2010).
  - An ABARE report on non-renewable resource taxation in Australia (Hogan and McCallum 2010) drew on the Commission's 1998 report on the black coal industry.
  - The final report of the Australian Government's Clinical Trials Action Group (2011) drew on the Commission's 2010 report on public and private hospitals when discussing pharmaceutical research and development.
  - Discussion of a potential horse industry levy by the Rural Industries Research and Development Corporation (RIRDC 2011) drew on Commission reports on rural research and development and science and innovation.
  - In announcing the Commission's inquiry into the Australian retail sector in February 2011 the Assistant Treasurer, the Hon. Bill Shorten, said:  
The Productivity Commission inquiry will provide a valuable insight into the challenges faced by the Australian retail sector in a globalised shopping world, and lay the foundations for a vibrant Australian retail sector for the next 25 years. (Shorten 2011)
  - Reference during parliamentary proceedings to Commission inquiry reports and commissioned research studies completed in this and previous years is an indicator of their continuing usefulness to parliamentarians. For example:

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- Inquiries or commissioned research studies current in the year were referred to on 88 separate occasions by Members and Senators in the Federal Parliament in 2010-11. Commission inquiries and reports which featured most prominently were those on international emissions reduction policies and carbon pricing, disability care and support, and aged care.
  - State and Territory members of parliament referred to current Commission inquiries and commissioned research studies on 98 occasions in 2010-11. Approximately 25 per cent of mentions related to the *Report on Government Services*, with the Commission’s report on disability care and support also featuring prominently.
  - Commission reports continued to be used to inform the work of COAG during the year, including reports on anti-dumping, chemicals and plastics regulation and upstream petroleum regulation (COAG 2011, COAG and BRCWG 2011).
  - The Grattan Institute (Daley and Lancy 2011) drew on a Commission report on local government revenue raising (PC 2008k) in a study of regional spending in Australia.
  - Skills Australia (2011) drew on a range of Commission reports, including those on national competition policy and on the workforce in the vocational education and training sector, when discussing the role of skills education in Australia.
  - In discussing the release of the Commission’s report on planning and zoning in May 2011, the Urban Taskforce stated that:

The Productivity Commission should be congratulated for its rigour, and avoiding the superficiality of others’ reviews. (Urban Taskforce Australia 2011)
  - Consideration of options for water trading by the National Water Commission (2011) drew on several inquiry and study reports, including a 2003 Commission study of GP compliance costs (PC 2003e) and the 2010 study of mechanisms for recovering water in the Murray-Darling basin (PC 2010a).
  - A consultation paper on gambling released by the Victorian Government in August 2010 (Victorian Government 2010) drew extensively on the Commission’s 2010 report on gambling (PC 2010b).
  - Continued use of Commission reports by private sector consultants in their work for government and industry clients — for example, the Commission’s 2006 report on the National Reform Agenda (PC 2006b) in a report on enhancing financial stability and economic growth (Allen Consulting Group 2011); and past Commission work on modelling an urban water system in a report on the proposed Tillegra Dam (CIE 2010).

**Table C.7 Impact of Commission inquiry reports on government policy making<sup>a</sup>**

<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 Pigeon 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 respond 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.

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**Table C.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)  
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.
- 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.

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**Table C.7 (continued)**

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
32 Review of Part X of the Trade Practices Act 1974: 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 Conservation of Australia's Historic Heritage Places (April 2006)	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.
38 Waste Management (October 2006)	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.

- 39 Tasmanian Freight Subsidy Arrangements (December 2006)  
 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.
- 40 Review of Price Regulation of Airport Services (December 2006)  
 The Government announced that it supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services.
- 41 Road and Rail Freight Infrastructure Pricing (December 2006)  
 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.
- 42 Safeguards Inquiry into the Import of Pigmeat (Accelerated Report) (December 2007)  
 On 20 December 2007 the Minister for Agriculture, Forestry and Fisheries announced the Commission had found that provisional safeguard measures on pigmeat imports were not warranted and that, consistent with Australia's international obligations, the WTO would be notified accordingly.
- 43 The Market for Retail Tenancy Leases in Australia  
 A government response was tabled in Parliament on 27 August 2008. The Government agreed or agreed in-principle to the Commission's recommendations on the use of simple (plain English) language in all tenancy documentation; contact points for information on lease negotiations, lease registration and dispute resolution; harmonisation of retail tenancy legislation across jurisdictions; and the possible introduction of a code of conduct for the retail tenancy market as an alternative to prescriptive legislation. The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies.
- 44 Safeguards Inquiry into the Import of Pigmeat (March 2008)  
 A government response was tabled in Parliament on 4 June 2008. The response provided agreement or in-principle agreement to all of the Commission's recommendations. The response noted that the Commission's accelerated report found that provisional safeguard action could not be taken against pigmeat imports at that time. It further noted that the Commission's final report also found that safeguard action was not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. Accordingly, on 8 April 2008, the Government notified the WTO that the safeguards investigation had been terminated, and that it would not impose safeguard measures.

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**Table C.7 (continued)**

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
45 Review of Australia's Consumer Policy Framework (May 2008)	<p>In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the Trade Practices Act 1974 and drawing on the recommendations of the Commission and best practice in State and Territory consumer laws. In addition, COAG is also reviewing occupational regulations only applying in one or two jurisdictions, which the Commission indicated warranted early attention. In accordance with a further Commission recommendation, on 22 July 2008 the Assistant Treasurer also announced changes to the configuration of the Commonwealth Consumer Affairs Advisory Council (CCAAC).</p> <p>Legislation to fully implement the new consumer law (including new provisions based on best practice in existing State and Territory laws); and to implement the new national legislative and regulatory framework for product safety, was introduced in 2010.</p>
46 Government Drought Support (May 2009)	<p>On 28 June 2010, the Australian Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011. The pilot reform measures draw partly on a number of recommendations made in the Commission's report, in particular regarding interest rate subsidies and farm exit support.</p>
47 Paid Parental Leave (February 2009)	<p>As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme introduced was closely based on that proposed in the Commission's final inquiry report. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government initially deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.</p> <p>Subsequently, in 2011 the Government introduced provision for two weeks paternity leave in line with the Commission's recommendation.</p>

- 48 *Australia's Anti-dumping and Countervailing System (December 2009)* The Government announced a response to the Commission's report on 22 June 2011 (*Australian Government 2011d*). The Government agreed or agreed in-principle with 15 of the report's 20 recommendations. These covered a range of issues, including working groups to examine the close processed agricultural goods provisions; not adopting the practice of zeroing; updating actionable subsidies to align with the latest relevant WTO agreements; arrangements for Custom to seek extensions of investigation periods; the introduction of a 30-day time limit for the Minister to make decisions; adequate resourcing for Customs and Border Protection and the Trade Measures Review Officer; advice to the Minister in investigation reports of the details of comparable recent cases in other countries; consultation with the ABS regarding better access to import data; and a five-year review of proposed reforms. The Government did not accept the Commission's recommendation concerning the introduction of a public interest test.
- 49 *Executive Remuneration (December 2009)* On 16 April 2010 the Government released a detailed response to the Commission's report. Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six of the in-principle acceptances provided by the Government subject to additional further strengthening. The Government did not support one recommendation on the removal of cessation of employment as a trigger for the taxation of deferred employee share schemes. It stated that, in its view, removal would increase the concessionality of schemes, providing a disproportionately large benefit to higher-income employees.
- 50 *Gambling (February 2010)* The Australian Government released an initial response to the Commission's report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.
- 51 *Wheat Export Marketing Arrangements (July 2010)* On 23 September 2011 the Government released a response to the Commission's report on wheat export marketing arrangements (*Australian Government 2011f*). The Government agreed in-principle with the Commission's recommendations to abolish the Wheat Export Accreditation Scheme, Wheat Exports Australia and the Wheat Export Charge on 30 September 2011, and remove the access test requirements for grain port terminal operators on 30 September 2014. However it proposed a more gradual, three-stage approach in transitioning to full market deregulation.

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Table C.7 (continued)

Inquiry report	Government response to Commission findings and/or recommendations
52 Rural Research and Development Corporations (February 2011)	<p>The Australian Government released a preliminary government response to the Commission's report on Rural Research and Development Corporations on 15 June 2011. The response stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission's recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.</p>
54 Disability Care and Support	<p>On 10 August 2011 the Australian Government provided an initial response to the Commission's report (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.</p>

<sup>a</sup> Additions or significant changes to the table published in the 2009-10 Annual Report are indicated in italics.

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### *Website and media coverage*

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

- In the 12 months to June 2011 there were more than 265 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2010-11. The projects of most interest were the inquiries on aged care (68 129 requests), disability support (67 670 requests) and urban water (20 169 requests), and the research study on emissions reduction policies (22 448 requests). Other heavily accessed web pages were for the 2010 and 2011 *Reports on Government Services* (18 328 and 20 293 requests, respectively) and the 2009 *Overcoming Indigenous Disadvantage* report (17 815 requests). Speeches by the Commission's Chairman attracted more than 36 000 requests. Even after an inquiry or research study is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 2009 inquiry on Australia's gambling industries received over 25 000 requests; the Commission's 2009 inquiry on paid parental leave received over 11 500 requests; and the 2010 study of the contribution of the not-for-profit sector received over 16 000 requests.
- Inquiry and commissioned research reports typically receive wide media coverage. In 2010-11 there were 41 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on gambling, urban water and anti-dumping and studies on international carbon policies and bilateral and regional trade agreements.
- Inquiries current in 2010-11 received over 5 900 mentions in the print and broadcast media during the year — over 68 per cent of total print and broadcast media coverage. Coverage of the Commission's inquiries into aged care and disability accounted for a significant share of total mentions. New work suggestions accounted for over 14 per cent of total mentions.

### *Invited presentations*

A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues is the 94 invitations the Commission accepted in 2010-11 to present papers on inquiries and commissioned studies to business, community and other groups — in particular, on the Commission's aged care, disability care and support and urban water inquiries (table F.1).

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## Performance reporting and other services to government bodies

At the request of the Government, the Commission undertakes a number of major activities in this output group. It provides secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of the annual *Report on Government Services*; the regular *Overcoming Indigenous Disadvantage* report; the two yearly *Indigenous Expenditure Report*; and the collation of performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council and the broader national performance reporting system.

### Activities in 2010-11

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

- Indigenous Expenditure Report *2010 Service Use Measure Definitions Manual* (September 2010)
- 2010 Indigenous Expenditure Report (forthcoming report to COAG)
- Report on Government Services 2011, two volumes (and supporting tables on website, January 2011)
- Report on Government Services 2011: Indigenous Compendium (April 2011)
- National Agreement performance information 2009-10: National Healthcare Agreement (December 2010)
- National Agreement performance information 2009-10: National Affordable Housing Agreement (December 2010)
- National Agreement performance information 2009-10: National Disability Agreement (December 2010)
- National Agreement performance information 2009-10: National Indigenous Reform Agreement (December 2010)
- National Agreement performance information 2009: National Agreement for Skills and Workforce Development (June 2010)
- National Agreement performance information 2009: National Education Agreement (June 2010)

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- Data gaps in education and training National Agreement reports (provided to Heads of Treasuries Committee on Federal Financial Relations on 17 September 2009)
  - Expenditure Data Manual: 2010 Indigenous Expenditure Report
  - Service Use Measure Definitions Manual: 2010 Indigenous Expenditure Report.

### *Review of Government Service Provision*

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

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

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

In November 2008, COAG endorsed a new Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, the Steering Committee has ‘overall responsibility for collating the necessary performance data’ required for the COAG Reform Council to undertake its assessment, analytical and reporting responsibilities. In addition, the Chair of the Heads of Treasuries Committee on Federal Financial Relations (HoTs Committee) has requested the Steering Committee to bring together information on data gaps in the performance reporting framework, and report back to the HoTs Committee on a six-monthly basis.

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

The inaugural *Indigenous Expenditure Report* was released on 28 February 2011. It provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on both Indigenous specific services and the estimated Indigenous share of mainstream services for 2008-09.

### *Report on Government Services*

The sixteenth Report on Government Services was released in January 2011. The Report emphasises reporting of outcomes, consistent with the demand by governments for outcome-oriented performance information, with a focus on the equity, effectiveness and efficiency of government service provision.

Reporting is an iterative process. Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Since the first Report was published in 1995, there have been significant advances in both the scope of reporting and the quality and comprehensiveness of data. Indicator comparability changed slightly between the 2010 and 2011 Reports, with 52 per cent of indicators fully comparable in 2011 (compared with 51 per cent in 2010). The proportion of indicators reported on, but not fully comparable, reduced from 31 per cent in 2010 to 29 per cent in 2011. The proportion of indicators with no reporting against them increased from 18 per cent in 2010 to 19 per cent in 2011 (figure C.2).

**Figure C.2 Comparability of indicators**

Per cent

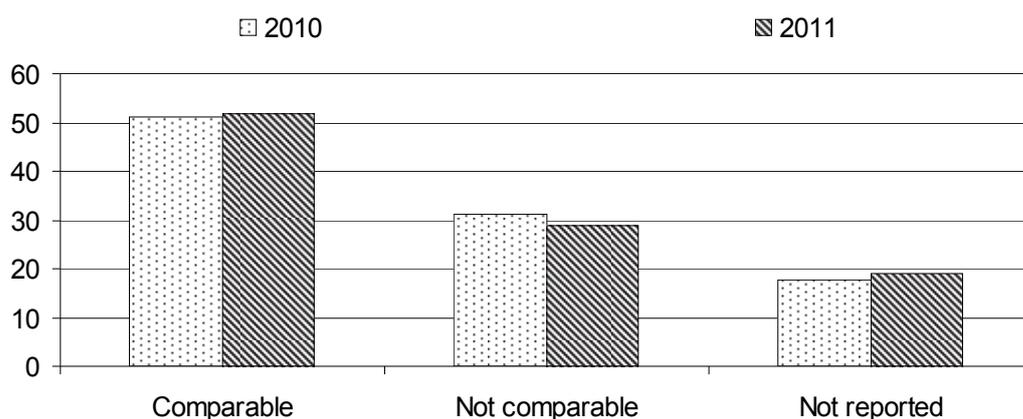


Table C.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2011 Report.

**Table C.8 Comparability of indicators, 2011 Report on Government Services<sup>a,b</sup>**

<i>Service area indicator framework (year first reported)</i>	<i>Indicators reported on a comparable basis</i>		<i>Change in all indicators (no.)</i>		
	<i>no.</i>	<i>% of all reported</i>	<i>Change since last year no.</i>	<i>Since last year</i>	<i>Between first reported–2011</i>
<i>Early childhood, education and training</i>					
Children’s services (1997)	14	66.7	–	–	+14
School education (1995)	11	64.7	–	–	+10
Vocational education and training (1995)	10	83.3	-1	-2	+2
<i>Justice</i>					
Police services (1995)	16	76.2	–	–	+6
Court administration (1995)	3	50.0	–	–	+3
Corrective services (1995)	10	90.9	–	–	-3
<i>Emergency management</i>					
Fire events (1998)	2	20.0	–	–	+10
Ambulance events (1998)	1	11.1	–	–	+10
Road rescue events (2004)	2	66.7	+2	–	+2
<i>Health</i>					
Public hospitals (1995)	8	50.0	+2	+1	+2
Maternity services (2001)	4	40.0	+1	–	+5
Primary and community health (1999)	27	96.4	+4	+5	+23
Breast cancer detection/management (1998)	7	63.6	–	–	+11
Mental health management (1999)	9	75.0	+4	+1	+6
<i>Community services</i>					
Aged care services (1997)	16	88.9	+2	+2	+10
Services for people with a disability (1997)	8	57.1	+1	+1	+3
Child protection and out-of-home care (1995)	4	33.3	–	-6	–
Juvenile justice (2009)	4	36.4	+2	+5	+11
<i>Housing and homelessness</i>					
Public housing (1995)	10	100.0	-1	-1	-3
State owned and managed Indigenous housing (2002)	10	100.0	-1	-1	–
Mainstream community housing (1997)	2	22.2	–	-1	+9
Indigenous community housing (2008)	2	28.6	-2	–	–
Commonwealth Rent Assistance (1999)	9	90.0	–	–	+10
Supported Accommodation and Assistance Program (1995)	12	80.0	–	-1	+11

<sup>a</sup> Changes can reflect merging of some indicators and splitting of others, as indicators and measures develop. Data do not capture changes in indicators over time, or replacement of indicators with more meaningful indicators. <sup>b</sup> Information is based only on indicators with data reported and does not reflect many conceptual developments. ... Not applicable. – Nil or rounded to zero.

Sources: SCRCSSP (1995–2002); SCRGSP (2003–2010a, 2011).

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Particular improvements in the 2011 Report include:

- Children's services — reporting new child care staff tenure data in Australian Government approved child care services sourced from the *National Early Childhood Education and Care Workforce Census 2010*; improved reporting of contextual information on management type of children's services to include the additional category of non-government schools sector; and updated income levels for reporting out of pocket costs for child care
- School education — extending the time series for the indicators 'retention' and 'student-to-staff ratio'; further alignment with National Education Agreement (NEA) and National Indigenous Reform Agreement (NIRA) indicators for 'reading performance', 'writing performance' and 'numeracy performance' with inclusion of mean scale scores and achievement bands, by Indigenous status for National Assessment Program — Literacy and Numeracy (NAPLAN) testing, and commencement of a time series for all NAPLAN data; reporting 2009 Programme for International Student Assessment (PISA) results for the indicators 'reading performance', 'numeracy performance', and 'science literacy performance'; reporting outcomes of the year 6 2009 Science Literacy National Assessment Program (NAP) for the indicator 'science literacy performance'; and, reporting the outcomes of the years 6 and 10 2008 Information and Communication Technologies NAP for the indicator 'information and communication technologies performance'
- Vocational education and training — co-location of data for the Indigenous cohort of students and graduates with those for the general cohort to make comparisons easier; reporting additional data for non-Indigenous students and graduates across various indicators; expanded scope for 'government funded' activity and reporting of associated training and expenditure data; reporting a new measure of Qualification Equivalents (by Indigenous status) under the 'skill profile' indicator; and, replacing TAFE graduates data with data for 'government funded VET' graduates for measures under the 'student employment and further study outcomes' and 'student satisfaction with VET' indicators, to capture VET activity funded by government more comprehensively
- Police services — reporting data from all jurisdictions for the first time for the indicator 'Indigenous staffing', enabling its status to change from incomplete to complete; reporting 2008-09 data for the indicators 'Crime victimisation' and 'Reporting rates', improving their timeliness and completeness, as the most recent previous data reported were for 2005 and were not available for some sub-categories for some jurisdictions; and, inclusion of two mini-case studies
- Court administration — ongoing improvements in consistency and integrity of data reported by all jurisdictions
- Emergency management — inclusion of a mini-case study

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- Health preface — inclusion of measures to align with National Healthcare Agreement (NHA) and National Indigenous Reform Agreement (NIRA) indicators, reporting data on the net growth in the health workforce for selected professions, the proportion of people who accessed health services by health status, health risk factors such as rates of risky alcohol consumption, smoking and obesity, for states and territories (previously only national data were reported), the incidence of selected cancers, infant (0–1 year), child (1–4 year) and total infant and child, (0–4 year) mortality (previously only infant mortality was reported), potentially avoidable deaths, and low birth weight babies by Indigenous status of mother
  - Public hospitals — inclusion of measures to align with NHA and National Indigenous Reform Agreement (NIRA) indicators, reporting data on ‘unplanned/unexpected readmissions within 28 days of selected surgical admissions’ replacing the ‘unplanned readmission rates’ indicator, ‘healthcare associated staphylococcus aureus bacteraemia in acute care hospitals’ replacing the ‘surgical site infection rates’ indicator, and inclusion of ‘falls resulting in patient harm in hospitals’ and ‘intentional self harm in hospitals’; revisions to the definitions of two sentinel event categories to align with national definitions endorsed by Health Ministers in 2009, improve data comparability across states and territories; and, better quality data for reporting on the indicator ‘vaginal birth following a previous caesarean’, with full coverage of births according to national definitions
  - Primary and community health — addition of indicators and measures to align with NHA and NIRA indicators ‘developmental health checks’, ‘GP waiting times’, ‘GP-type visits to emergency departments’, ‘patient satisfaction’ and ‘child immunisation coverage’, reflecting immunisation coverage for children aged 60–63 months; data for ‘bulk billing rates’ are reported by age for the first time; and, data reported on ‘management of upper respiratory tract infections’ are improved in terms of specificity and completeness
  - Health management — reporting data for ‘Participation rate of women from selected community groups in the BreastScreen Australia Program’, improving its timeliness, as the most recent previous data reported were for the 24 month period 2005 and 2006; refined reporting on the mental health indicator ‘services reviewed against the national standards’, by inclusion of data on additional categories relating to the achievement of standards; reporting of an additional measure for the mental health indicator ‘collection of outcomes information’; and inclusion of the indicator ‘clinical mental health service use by special needs groups’, which measures access to mental health services by geographic location, Indigenous status and by the Socio-Economic Index for Areas (SEIFA), to align with the NHA

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- Community services preface — relocation of Supported Accommodation Assistance Program (SAAP) reporting to section G, the new ‘Housing and homelessness’ sector summary; revising the expenditure section text and data on the community services sector, improving its timeliness by two years and its coverage to a broader set of services; and updating data and information on projections of demographics and their effects on demand for community services
  - Aged care — reporting new measures for the indicator ‘compliance with service standards in community care’ for the Community Aged Care Packages (CACAP), Extended Aged Care at Home (EACH), EACH Dementia (EACH-D) and the National Respite for Carers Program (NRCP) programs; and, inclusion of indicators and measures to align with NHA aged care indicators ‘operational aged care places’, ‘selected adverse events in residential aged care’ and hospital patient days (for overnight separations only) used by patients who are waiting for residential aged care
  - Services for people with disability — reporting ‘assistance for younger people in residential aged care’ as an indicator for the first time and including additional measures; reporting on inclusion of people in need of assistance with independent living (AIL) or assistance with work, education and community living (AWEC) for the indicator ‘Service use by severity of disability’; reporting WA data for the ‘client and carer satisfaction’ with specialist disability services indicator for the first time; and, alignment with relevant NDA indicators, including additional data disaggregations for specific age groups and sex for the access to appropriate services on the basis of relative need indicators
  - Protection and support services — consistent reporting of child protection activity data for the age range 0–17 years (prior to 2009-10, the rates of children subject to notifications, investigations and substantiations were calculated for children aged 0–16 years, while the rates of children on care and protection orders and in out-of-home care were calculated for children aged 0–17 years); six jurisdictions reporting performance data for the effectiveness indicator ‘safety in out-of-home care’, compared with five previously; seven jurisdictions reporting proportions of expenditure across child protection Pathway activity groups, compared with five previously; for the first time, five jurisdictions reporting experimental unit cost data for four Pathways activity groups; for the first time, reporting a figure for the efficiency indicator ‘Out-of-home care expenditure per placement night’; reporting where applicable, child protection, out-of-home care and intensive family support services data, disaggregated by ‘Indigenous’, ‘non Indigenous’, ‘unknown Indigenous status’ and ‘total children’; reporting performance data for five new juvenile justice performance indicators, ‘group conferencing outcomes’, ‘assaults in custody’, ‘self-harm and attempted suicide in custody’, ‘completion of orders’, and ‘centre utilisation’

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- Housing and homelessness sector summary — included for the first time and is aligned with the National Affordable Housing Agreement (NAHA)
  - Housing — inclusion of new measures for the ‘affordability’ indicator for public housing, SOMIH and community housing to align with NAHA performance reporting; and, adopting the Canadian National Occupancy Standard for reporting the ‘match of household to dwelling size’ indicator for public housing, SOMIH and community housing, to align with NAHA performance reporting
  - Homelessness services — has been included for the first time and is aligned with the NAHA.

There was also an expansion of time series reporting in many chapters and inclusion of additional data quality information for many indicators.

The Review continues efforts to improve reporting on service provision to Indigenous Australians. Improvements were made to Indigenous data for the School education, Vocational education and training, Health (preface) and Protection and support chapters in the 2011 Report. The Indigenous Compendium to the Report, released in April 2011, provides an easily accessible collation of all Indigenous data from the Report, and complements the information in the separate Overcoming Indigenous Disadvantage and Indigenous Expenditure reports.

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

In 2002, COAG commissioned the Review to produce a regular report on key indicators of Indigenous disadvantage, ‘to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council’s commitment to reconciliation through a jointly agreed set of indicators’ (COAG Communiqué, 5 April 2002). In March 2009, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference align the OID framework with COAG’s six high level targets for Closing the Gap in Indigenous outcomes. The structure of the aligned framework remains very similar to that of previous reports, but highlights the COAG targets and priority areas for reform and includes additional indicators.

The 2011 edition of the OID was released in August. It showed that many Indigenous people have shared in Australia’s recent economic prosperity, with increases in employment, incomes and home ownership. There have also been improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes on average 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.

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## *Indigenous Expenditure Report*

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

The inaugural *Indigenous Expenditure Report* was released on 28 February 2011. It provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on both Indigenous specific services and the estimated Indigenous share of mainstream services for 2008-09.

The *2010 Indigenous Expenditure Report* was supported by two companion manuals which documented in detail the methods, data sources and interpretation issues underpinning the estimates:

- *2010 Report Expenditure Data Manual*
- *2010 Report Service Use Measure Definitions Manual*.

In February 2011 COAG transferred responsibility for the Indigenous Expenditure Report to the Steering Committee for the Review of Government Service Provision, which also produces the Overcoming Indigenous Disadvantage report and the Report on Government Services. The Productivity Commission continues to provide secretariat services for *Indigenous Expenditure Report* development through its support of the Review Steering Committee.

A supplement to the *2010 Indigenous Expenditure Report*, which provides estimates of Australian Government expenditure by state and territory, was released on 15 September 2011. This supplement complements the 2010 Report and enables the estimation of the total government resources committed in each state and territory.

Development of the 2012 *Indigenous Expenditure Report* has commenced and this second instalment in the series is expected to be released in mid-2012.

## **Quality indicators**

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

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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 14 national working groups comprising representatives from over 80 government agencies. It also draws on the expertise of other bodies such as the ABS and the Australian Institute of Health and Welfare (AIHW), and committees established under Ministerial Councils and COAG Working Groups.

The Review has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage* report. Following the release of the 2011 report, consultations have commenced with government agencies, Indigenous communities and Indigenous organisations across Australia.

## **Timeliness**

The 2011 Report on Government Services and its Indigenous Compendium, the *Overcoming Indigenous Disadvantage: Key Indicators 2011*, the six National Agreement reports and four National Partnership reports to the COAG Reform Council and two Data Gaps reports to the HoTS Committee 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.

### *Review of Government Service Provision*

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:

- There were 46 mentions of performance information sourced to the 2011 (and earlier) editions of the Report on Government Services used in parliamentary proceedings by government and opposition members in Federal and State parliaments during 2010-11.
- A number of journal articles and publications across a wide range of disciplines used the 2011 Report (and earlier editions) as a source. It was cited in articles in the Australian Family Physician; Current Issues in Criminal Justice; Quadrant; Emergency Medicine Australasia; Agenda; Journal of Judicial Administration;

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Health Economics, Policy and Law; Journal of Paediatrics and Child Health; Australian Health Review; Law & Social Inquiry; Journal of Public Child Welfare; Australian Indigenous Health Review; BMC Public Health; Urban Policy and Research; Journal of Risk Research; Economic Record; Children Australia; International Journal of Public Sector Management; Policing and Society; Australian Journal of Public Administration; Australasian Journal of Early Childhood and Australian Educational Researcher.

Other indicators of usefulness from 2010-11 were:

- endorsement of the general performance framework, and most of the indicators and measures contained in the 2011 Report by an Independent Reference Group
- the international Forum of Federations partnership with the Review secretariat in an international roundtable on 'Benchmarking in Federal Systems' (October 2010)
- high levels of demand with nearly 1500 bound copies of the 2011 Report distributed by the Commission and there were more than 24 000 HTML page requests for the Government Service Provision index page on the Commission's website in 2010-11. There were more than 32 500 HTML page requests for the Report on Government Services during 2010-11 compared with more than 25 500 HTML page requests for the Report on Government Services during 2009-10. Earlier editions continued to be accessed from the website — with over 51 000 additional page requests during 2010-11
- extensive media coverage of the *2011 Report on Government Services*. There were 146 press articles drawing on the report in the year to 30 June 2011 compared with 139 the previous year (based on the two most report-relevant categories of Commission media monitors)
- use of data by researchers: for example, data on protection and support services were used in the AIHW's report *Child Protection Australia (2009-10)*; data on VET course completions were used in the NT Government's *How we're going - data snapshots (2011)*; data on government real recurrent expenditure on VET per annual hour were used in Box Hill Institute's *Response to the Vocational Education and Training Fee and Funding Review (1 July 2011)*; various data on VET were used in News Update of the Association of Independent Schools of SA (15 Feb 2011); data on Australian Government funding for schools were used in a Parliament of Australia Background note (January 2011); data on total cost per casemix adjusted separation (recurrent cost plus Secretariat estimates of capital costs per casemix adjusted separation) were used in the AIHW's *Australian Hospital Statistics (2009-10)*.

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- use of data by other areas of the Commission: for example, data were used in the Vocational Education and Training Workforce report on Indigenous representation in VET (2010, p. 23), recurrent government expenditure for VET (2010, p. 79) and recurrent funding by all governments for VET (2011, p. 67); data were used in the Early Childhood Development Workforce draft report on early childhood education and care services in Australia (2011, p. XXIII of overview), early childhood education and care services (2011, pp. 14, 16), population usage of early childhood development services (2011, pp. 17-18), funding streams for early childhood development services (2011, pp. 19-20), volunteers in early childhood development services (2011, p 42), proportion of profit v non profit providers of childhood development services (2011, p. 107), attendance rates in remote and very remote areas (2011, p 149) and participation of Indigenous children in ECEC services (2011, pp 265-266); data were used in the Caring for Older Australians inquiry on Indigenous people who need culturally and linguistically appropriate care (2010, p. 49), age related rates of disability for Indigenous people (2010, p. 49) and total direct government expenditure of aged care services (2011, p. 29); the Disability Care and Support Inquiry report used data on public housing containing a household member with disability (2010, pp. 241-242), users of specialist disability services (2011, pp. 96-97, 101, 194), people with disability receiving Commonwealth Rent Assistance (2011, p. 241), CSTDA funded services for Indigenous and non-Indigenous people with disability (2011, p. 537), estimated costs of employment services for people with disability (2011, pp. 695, 697-698) and total government expenditure for the disability sector (2011, pp. 777-778)
  - widespread use of the 2011 (and earlier) government services reports in OECD committee documents and working papers.

### *Overcoming Indigenous Disadvantage: Key Indicators*

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

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

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### *National Agreement reporting*

The second cycle of National Agreement reporting, covering healthcare, affordable housing, disability services and Indigenous reform, was delivered on schedule to the COAG Reform Council on 23 December 2010. This completed the second cycle of performance reporting by the Steering Committee on all six National Agreements under the IGA.

The third cycle of National Agreement reporting, covering the education and training sectors, was delivered on schedule to the COAG Reform Council on 30 June 2011. This third cycle continued to focus on measuring change over time, but following a request from the CRC only included current year data (historical data were not provided unless new or revised since the previous reports), as well as outlining the key changes from the second cycle report including a new indicator for employer perspectives on training outcomes.

Under the IGA, the Ministerial Council for Federal Financial Relations is responsible for the National Performance Reporting System, which includes a program of continuous improvement. On 26 June 2009, the Heads of Treasuries Committee on Federal Financial Relations (established by the MCFRR to oversee this work), requested the Steering Committee to report on data gaps in the National Performance Reporting System. The Steering Committee provided reports to the Heads of Treasuries Committee on data gaps across all six National Agreements during 2009-10. A draft report on data gaps following the second cycle of National Agreement education and training reporting was provided to the Committee in September 2011. The Committee has not requested further reports to date, with other COAG reviews superseding these reports.

At its 7 December 2009 meeting, COAG agreed to a high level review of the NAs, NPs and implementation plans (IPs). On 13 February 2011, COAG noted a report on this review and agreed to further reviews of the performance indicator frameworks within each NA (COAG 2011a). The reviews for all six NAs are due to be completed by end-June 2012. It is anticipated that the outcomes from this review will be considered in the future cycles of NA reporting.

## **Competitive neutrality complaints activities**

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

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

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

## **Activities in 2010-11**

### *Complaints activity*

The AGCNCO received six formal complaints during 2010-11 (table C.9). It also received numerous inquiries that involved considerable investigative work to determine whether a formal investigation of the complaint should be undertaken. Details of the complaints received, including the action taken, are reported in appendix D.

### *Advice on the application and implementation of competitive neutrality*

An important role of the AGCNCO is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2010-11, the AGCNCO provided advice around twice a week, on average, to government agencies or in response to private sector queries either over the telephone or in ad hoc meetings.

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

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

**Table C.9 Formal competitive neutrality complaints, 2006-07 to 2010-11**

<i>Activity</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Written complaints received	1	1	0	0	6
Action:					
New complaints formally investigated	1	–	–	–	3 <sup>a</sup>
Complaints investigated but not proceeding to full report <sup>b</sup>	–	1	–	–	3
Complaints not investigated	–	1	–	–	–
Reports completed	–	1	–	–	–
Complaints on hand (30 June)	1	–	–	–	4 <sup>c</sup>

<sup>a</sup> These three complaints related to the same matter — the pricing and expected rate of return of NBN Co — and are being investigated jointly. <sup>b</sup> Includes: complaints subject to preliminary investigation but for which no prima facie evidence of a breach of competitive neutrality policy was found; and complaints investigated and resolved through negotiation. <sup>c</sup> Includes three complaints relating to the same matter (NBN Co) plus one not proceeding to a full report.

## 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 of the quality of the AGCNCO’s work.

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

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

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## **Timeliness**

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

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

## **Indicators of usefulness**

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

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

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

During 2010-11 there were close to 6200 external requests to the website for AGCNCO investigation reports and about 1500 external requests for AGCNCO research publications.

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## Supporting research and activities and statutory annual reporting

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

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

### Activities in 2010-11

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

- research to meet the Commission's annual reporting obligations, comprising
  - its annual report for 2009-10, tabled in Parliament on 16 November 2010, which focused on evidence-based policy and evaluation
  - a companion publication on trade and assistance issues, released in June 2011
- submissions to the Rural Research and Development Council and the Taskforce on the Sustainable Population Strategy for Australia
- a published speech by the Chairman on structural reform, as well as several other presentations by the Chairman posted on the Commission's website
- the Richard Snape Lecture, *The Challenges for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective*, delivered by Dr Mari Pangestu (Indonesia's Minister of Trade) on 22 November 2010
- four Staff Working Papers on intangible assets and productivity growth, childhood obesity, the links between literacy and numeracy and labour market outcomes, and the labour force participation of women over 45 years of age

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- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
  - other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The research publications produced in the supporting research program in 2010-11 are listed in box C.3. Research projects underway at 30 June 2011 are shown in box C.4.

### *Richard Snape Lectures*

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

The next lecture will be given by Dr Roberto Newell (a former senior partner at McKinsey and the inaugural President of the Mexican Institute for Competitiveness).

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**Box C.3 Supporting research and annual reporting publications, 2010-11**

**Annual report suite of publications**

Annual Report 2009-10

Trade & Assistance Review 2009-10

**Submissions**

Submission to the Rural Research and Development Council

Submission to the Taskforce on the Sustainable Population Strategy for Australia

**Chairman's published speeches**

Successful Reform: Past Lessons, Future Challenges

**Conference/workshop proceedings**

A 'Sustainable' Population? - Key Policy Issues

**Commission Research Paper**

Population and Migration:  
Understanding the Numbers

**Staff working papers**

Investments in Intangible Assets and  
Australia's Productivity Growth: Sectoral  
Estimates

Childhood Obesity: An Economic  
Perspective

Links Between Literacy and Numeracy  
Skills and Labour Market Outcomes

Labour Force Participation of Women  
Over 45

**2010 Richard Snape Lecture**

The Challenges for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective (Dr Mari Pangestu)

*Supporting research proposals*

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

- productivity and its determinants (including the scope for 'catch-up'; infrastructure; assistance to industry; barriers to trade, both domestic and international; and the performance and governance of government trading enterprises)
- environmental and resource management, especially of water and its infrastructure (urban as well as rural)

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### Box C.4 Supporting research projects underway at 30 June 2011

Multifactor productivity growth cycles at the industry level	An analysis of the effect of product market competition on innovation and productivity in Australia
Productivity in the electricity, gas and water industries	Recent developments in the returns to factors of production
Setting priorities in services trade reform (ARC Linkage Grant)*	Structural change and productivity
Partial input and productivity measures as indicators of environmental impacts	Interactions between trade and employment in Australia
The determinants of major forms of work in Australia	Determinants of Indigenous labour market outcomes
Historical validation using the Monash Multi Regional Forecasting (MMRF) model	Tackling the tough problems in productivity measurement (ARC Linkage Grant)*
Utilisation of social science research (ARC Linkage Grant)*	Assessing the social and fiscal policy implications of an ageing population (ARC Linkage Grant)*
The distributional impact of health outlays: developing the research and modelling infrastructure for policy makers (SPIRT project)*	

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

- labour markets (including health and education, and distributional and other social dimensions)
- the development of economic models and frameworks (including behavioural economics) to aid the analysis of policies and trends, and of impediments to sustained improvements in living standards (PC 2006a).

The Commission sees value in the 'public good' aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 94 presentations given by the Chairman, Commissioners and staff in 2010-11 are provided in appendix F.

### Quality indicators

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

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For example, the quality assurance process for the staff working paper on sectoral estimates of investment in intangible assets and productivity growth included:

- consultations with a range of external parties and sectoral experts
- the use of internal and external referees, including referees from the Australian Bureau of Statistics, Imperial College London and Statistics Canada
- further assistance from the Australian Bureau of Statistics through the provision of unpublished data.

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

Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees for staff working papers in 2010-11 were drawn from Curtin Business School, the Australian Bureau of Statistics, Imperial College London, Statistics Canada, the Australian Centre for Economic Research on Health and Deakin University.

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

- invitations from the OECD and the WTO during the year to discuss regulatory reform, trade reform and the results of recent productivity research
- an invitation from the Economics Society of Australia for Commission staff to present a Master Class on productivity at the 2011 Australian Economic Forum
- invitations during the year for the Commission to be a research partner in ARC linkage projects
- shortlisting of the Chairman's published speech on *Successful Reform: Past Lessons, Future Challenges* for the 2011 John Button Essay Prize
- the large number of international delegations and visitors in 2010-11 that visited the Commission to discuss aspects of its research program and findings (table F. 2).

## **Timeliness**

The Commission's annual report for 2009-10, which included a theme chapter on evidence-based policymaking and evaluation, was completed on schedule on 14 October 2010 and tabled in Parliament on 16 November 2010. The annual report

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companion volume (*Trade & Assistance Review 2009-10*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

### **Indicators of usefulness**

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform and regulatory policy issues is available from a range of indicators. These cover the use of this research by government, community and business groups and international agencies, and invitations to discuss and disseminate its research findings in community and business forums. Examples from 2010-11 include the following:

- Past Commission research in a diverse range of areas continued to be used in 2010-11, demonstrating the considerable 'shelf life' of Commission research outputs. For example, Commission research on trends in agriculture (PC 2005e) was used in discussing the implications of labour skills shortages (Broad 2011), and by the National Farmers' Federation in their *Annual Review 2010-11* (NFF 2011); past Commission research on structural change (PC 1998b) and trends in Australian manufacturing (PC 2003d) was used in a Reserve Bank of Australia research paper on structural change in the Australian economy (Connolly and Lewis 2010); past research on productivity in wholesale and retail trades (Johnston et al. 2000) was used by the Department of Resources, Energy and Tourism when discussing productivity in the tourism sector (DRET 2010); the Australian Government Information Management Office released a draft report on the use of ICT in April 2011 (AGIMO 2011) which drew on a 2004 Commission research paper on ICT use and productivity (PC 2004f); and research undertaken by Commission staff on business failure (Bickerdyke, Lattimore and Madge 2000) was used by the Senate Economics Committee in a report on insolvency practitioners in Australia in September 2010.
- Commission research on health and ageing continued to be widely used throughout the year. For example, an Access Economics report produced for Alzheimer's Australia drew on the Commission's 2008 research paper on trends in aged care services when discussing dementia care policies (Access Economics 2010); a Bills Digest on aged care produced by the Parliamentary Library in June 2011 also drew on the Commission's 2008 aged care trends paper; and a Queensland University of Technology research paper on the use of the internet by older Australians (Haukka 2011) released in June 2011 drew on Commission research on population ageing (PC 2005b).

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- The OECD also continued to make widespread use of Commission research within its own published research in 2010-11. This included research on intangible assets and productivity growth (Barnes and McClure 2009) in a paper on entrepreneurship, industry and local development (OECD 2010b); research on productivity performance (Dolman, Parham and Zheng 2007) and infrastructure financing (Chan et al. 2009) in its economic survey of Australia (OECD 2010a); and use of Commission submissions on infrastructure (PC 2008i) and productivity (PC 2009e) in a paper on meeting infrastructure needs in Australia (Giorno 2011).
  - The Commission's environmental research continued to be used throughout the year. For example, the Commission's 2008 submission to the Garnaut Climate Changes Review was used by the Garnaut Review in an update paper released in March 2011 (Garnaut Climate Change Review 2011); and research on modelling water trading (Peterson, Dwyer, Appels and Fry 2004) was used by the OECD in a paper on water governance in the Murray-Darling Basin (OECD 2011).
  - Commission research outputs on labour markets continued to be widely used throughout the year. For example, a report on lifting the quality of teaching and learning in higher education by the Business Council of Australia (2011) drew on recent research on the effects of education and health on wages and productivity (Forbes, Barker and Turner 2010); and use of the Commission's productivity submission (PC 2009e) in a speech by the Minister for Infrastructure and Transport, Anthony Albanese (Albanese 2011).
  - Recent Commission research outputs on evidence-based policy and evaluation, including the Commission's 2011 Roundtable Proceedings and the 2009-10 Annual Report, were used in a speech delivered in August 2010 on evaluation by David Tune, Secretary of the Department of Finance and Deregulation (Tune 2010).
  - Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables C.1 and C.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. Outputs from the Commission's supporting research program attracted seven editorials in major newspapers in 2010-11. To 30 June 2011, for the reports listed in box B.3, there were more than 32 500 external requests for the index pages on the Commission's website. There was a total of more than 141 000 external requests for the 71 supporting research reports for which website usage was tracked, and more than 36 000 requests for speeches by the Commission's Chairman.

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## D Competitive neutrality complaints

**The Productivity Commission Act and the Australian Government's Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the 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 six formal complaints in 2010-11. Details of the investigation and action taken in relation to these complaints are summarised in this appendix.**

### **Formal investigations commenced in 2010-11**

The AGCNCO received six formal written complaints in 2010-11. Three were in relation to NBN Co. The others were in relation to Australia Post, the Australian Maritime Safety Authority (AMSA) and the Australian Securities and Investments Commission (ASIC).

After preliminary investigations, the AGCNCO decided to formally investigate the complaints against NBN Co. This investigation is ongoing. The complaint against Australia Post is the subject of an ongoing preliminary investigation. The complaints against AMSA and ASIC did not proceed past a preliminary investigation as there was no evidence of prima facie breach of competitive neutrality policy.

#### **NBN Co**

The AGCNCO received three complaints concerning the activities of NBN Co from wholesale providers of greenfields telecommunications infrastructure:

- Opennetworks lodged a complaint on 13 April 2011
- Converge Networks lodged a complaint on 5 May 2011
- Service Elements lodged a complaint on 1 June 2011.

The complainants raised a number of concerns that, they alleged, represented breaches of competitive neutrality policy:

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- While the Minister for Broadband, Communications and the Digital Economy announced NBN Co as a provider of last resort (where no commercial operator would operate) in greenfield developments, it has actively sought business in commercially viable developments.
  - NBN Co's pricing of infrastructure in greenfield developments is contrary to competitive neutrality principles. NBN Co is claimed to be providing infrastructure (fibre and active equipment) and connections in new developments at no charge to developers. Private providers must charge developers their capital costs (which are passed on to land buyers) as they are unable to recoup capital costs from retail service providers.
  - As NBN Co will not be charging developers, the announced rate of return of 7 per cent can not be achieved, and even if it were, it would not represent a commercial rate of return.
  - The operational standards of NBN Co are being presented as new industry standards by NBN Co to which other private operators must also adhere.
  - NBN Co had breached the regulatory neutrality provisions under proposed laws that allow Ministerial determinations of technical specifications to be made. Currently, providers operate under industry codes of practice. It is argued that Ministerial determinations will favour NBN Co as they will increase the cost of private provision making private providers an unviable option for developers.
  - NBN Co is using its position as a government business enterprise to promote itself as the only option to build fibre to the home networks in greenfield developments.
  - NBN Co negotiations with Telstra for the transfer of existing and new networks are putting other smaller players at a significant disadvantage.

The Office finalised stakeholder consultations within the 2010-11 financial year and was awaiting formal responses from NBN Co and the Department of Broadband and the Digital Economy early in the 2011-12 financial year. After the formal responses have been received and further consultations undertaken, the AGCNCO will publicly release a final investigation report.

## **Other complaints received in 2010-11**

Three complaints received during 2010-11 had not been formally investigated by year's end. The complaint relating to Australia Post is the subject of an ongoing preliminary investigation. The other two complaints were subject to initial investigations which subsequently found no prima facie evidence of a breach of competitive neutrality policy.

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## **Australia Post**

A complaint was received by the AGCNCO from Office Data Systems, a business that supplies office products, through their local member of parliament in December 2010. The complaint was in relation to the establishment of an online office supplies site which sold products by OfficeMax that were delivered by Australia Post.

The issues raised by the complainant related to alleged:

- advantages to Australia Post from exploiting its distribution network in its agreement with OfficeMax
- price discrimination by a government business enterprise — through this price discrimination, OfficeMax was advantaged due to discounted access to Australia Post's distribution network.

Australia Post was approached with separate requests on two occasions and asked to respond to the complaints put forward by Office Data Systems. At the end of the 2010-11 financial year, the AGCNCO was waiting for a further response from Australia Post in relation to the issues raised. Whether a formal investigation is warranted will be decided following the receipt of the additional information from Australia Post.

## **Australian Maritime Safety Authority**

In November 2010, the AGCNCO was approached by Dr Kent Morison about the then proposed changes, by AMSA, to medical checks conducted by health professionals for maritime workers.

Prevailing arrangements were that suitably qualified medical practitioners could apply to AMSA to be able to conduct medical checks and were appointed (without charge) subject to meeting AMSA approval. The medical practitioners could then charge a fee that they set.

However, given a number of complaints from industry participations, and a lack of accountability of health professionals, AMSA sought to implement a national system for health checks which could be subject to audit.

Dr Morison's complaint suggested that such a change would remove some of the benefits of the current system by reducing competition. In particular, he suggested that the shift would reduce:

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- choice of practitioner and access to AMSA medical examination (including, for example, for maritime workers requiring a medical in remote and rural locations of Australia)
  - price competition between medical practitioners performing AMSA medicals.

Dr Morison asked the AGCNCO to examine the issue on the grounds that the shift in supply was anti-competitive.

The AGCNCO provided an initial response stating that decisions made by government agencies on the ‘choice of suppliers’ were not subject to competitive neutrality policy. Therefore the issue fell outside the purview of the Office.

After this initial response from the AGCNCO, Dr Morison pursued other avenues to have his complaint heard. After exhausting these, in late March 2011 he contacted the AGCNCO and asked that the matter be reviewed a second time.

At this time, Dr Morison informed the AGCNCO that the bulk supplier of medicals was to be Medibank Health Solutions (a government business) and that details of the pricing arrangements between AMSA and Medibank Health Solutions would not be released citing ‘commercial in-confidence’.

In response to a preliminary investigation by the AGCNCO, AMSA advised that the decision to enter into a commercial relationship with Medibank Health Solutions was arrived at after they sought expressions of interest from health professionals and undertook extensive consultation. The new system became operational on 1 March 2011.

While the original advice concerning the administrative decision by AMSA to change the way they purchased medical checks remained valid, the Office sought information from Medibank Health Solutions in relation to their commercial arrangement with AMSA.

As Medibank had recently been converted into a ‘for-profit’ entity, they were required to pay tax, earn a commercial rate of return (and were doing so) and make dividend payments to shareholders (the Australian Government). Such arrangements were being conducted in a manner consistent with a similar private firm and in adherence to competitive neutrality principles. For the particular contract at issue, Medibank also provided information that verified that no government funding was being used to subsidise the commercial relationship with AMSA.

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The complainant was subsequently informed that as Medibank was applying competitive neutrality policy correctly, the matter would not proceed to formal investigation.

### **Australian Securities and Investments Commission**

In April 2011, the AGCNCO received a complaint in relation to ASIC's decision to provide 'direct-to-the-public' company extracts which had previously only been supplied over-the-counter or 'wholesale' to information brokers. The Information Brokers & Law Stationers Association (IBLSA), who lodged the complaint, suggested that a number of brokers had worked with ASIC to provide this information to the public since the mid-1990s.

The IBLSA believed that ASIC's pricing intentions for the direct-to-the-public service were contrary to the principles of competitive neutrality policy. In particular, IBLSA believed that the intended prices were not set on a comparable basis to private sector organisations and would not allow for a suitable rate of return to be earned.

After preliminary investigations it was found that ASIC's price setting was restricted by regulation — they had no independence in pricing and therefore failed the business test. ASIC's prices are mandated by the *Corporations (Fees) Regulation 2001*, schedule 1 items 29, 30, 31 and 32. The complainant was informed that, as ASIC failed the business test, competitive neutrality policy did not apply and the matter would not be formally investigated.



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## E Government commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides a summary of projects which the Government commissioned during the year and government responses to reports completed in 2010-11 and previous years. It also reports on commissioned projects received since 30 June 2011.

This appendix is structured as follows:

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

Table E.1 summarises activity since the Commission's 2009-10 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
23-3-09	Australia's Anti-dumping and Countervailing System	AR 08-09	Report completed 18 December 2009	AR 09-10	page 205
29-9-09	Wheat Export Marketing Arrangements	AR 08-09	Report completed 1 July 2010	page 190	page 191
15-2-10	Rural Research and Development Corporations	AR 09-10	Report completed 10 February 2011	page 191	page 193
17-2-10	Disability Care and Support	AR 09-10	Report completed 31 July 2011	page 194	page 197
27-4-10	Caring for Older Australians	AR 09-10	Report completed 28 June 2011	page 193	na
19-7-10	Australia's Urban Water Sector	AR 09-10	in progress	na	na
15-12-10	Economic Regulation of Airport Services	page 183	in progress	na	na
3-2-11	Economic Structure and Performance of the Australian Retail Industry	page 185	in progress	na	na
1-9-11	Australia's Export Credit Arrangements	page 188	in progress	na	na
20-9-11	Climate Change Adaptation	page 189	in progress	na	na
<b>Other commissioned projects</b>					
28-2-07*	Annual Review of Regulatory Burdens on Business – Business and Consumer Services	AR 06-07*	Report completed 31 August 2010	AR 09-10	page 205
10-4-08	Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector	AR 07-08	Report completed 9-4-09	AR 08-09	page 204
27-11-09	Bilateral and Regional Trade Agreements	AR 09-10	Report completed 27 November 2010	page 197	page 199
12-4-10	Performance Benchmarking of Australian Business Regulation: Planning and Zoning and Land Development Assessments	AR 09-10	Report completed 29 April 2011	page 199	na

22-4-10	Education and Training Workforce: Vocational education and training (VET)	AR 09-10	Report completed 21 April 2011	page 200	na
16-6-10	Impacts and Benefits of COAG Reforms: Framework Report	AR 09-10	Report completed 23 December 2010	page 202	na
1-10-10 (rcvd 22-4-10*)	Education and Training Workforce: Early Childhood Development	page 182	in progress	na	na
15-11-10	Emission Reduction Policies and Carbon Prices in Key Economies	page 203	Report completed 31 May 2011	page 203	na
18-4-11 (rcvd 22-4-10**)	Education and Training Workforce: Schools	page 185	in progress	na	na
24-5-11	Annual Review of Regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	page 186	in progress	na	na
4-7-11	Performance Benchmarking of Australian Business Regulation: Role of Local Government	page 187	in progress	na	na
22-8-11	Impacts and Benefits of COAG Reforms: Letter of direction	page 188	in progress	na	na

Note: References are to previous annual reports (AR) of the Productivity Commission. \*Terms of reference for this project were included in those announced for the Annual Review of Regulatory Burdens on Business — Primary Sector on 28 February 2007. \*\*Terms of reference for this project were included in those announced for the Education and Training Workforce: Vocational education and training (VET) study on 22 April 2010. **na** not applicable.

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## Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2009-10, which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in the relevant reports.

### Education and Training Workforce: Early Childhood Development

On 22 April 2010, the Assistant Treasurer asked the Commission to undertake a research study to examine issues impacting on the workforces in the vocational education and training, early childhood development and schools sectors. The Commission commenced the second of these studies, on the workforce in the early childhood development sector, on 1 October 2010.

In relation to the ECD workforce, the Commission is asked to specifically consider and give advice on:

- Factors affecting the current and future demand and supply for the ECD workforce, and the required mix of skills and knowledge, including:
  - delivery of fully integrated ECD services including maternal and child health, childcare, preschool, family support services and services for those with additional needs
  - market requirements for broader leadership, management and administrative skills in operating both mainstream universal service providers and integrated service hubs
  - the availability and quality of pre-service education programs, including through undergraduate and postgraduate education and VET, and consideration of training pathways
  - ECD workforce participation, including ease of access to the early childhood development workforce in different sectors and net returns to individuals and recognition of expertise
  - the quality and skills of the workforce, job design and workplace practices and arrangements and their contribution to achieving COAG outcomes and setting future direction.
- Workforce planning, development and structure in the short, medium and long term, covering:
  - career pathways, the structure of existing employment arrangements and practices and the extent to which they are disincentives to attracting and

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retaining employees, including pay and conditions across settings; strategies to address possible pay equity issues as necessary; options for funding pay increases as necessary; and the implications for purchasers of ECD services and all levels of government and funding responsibilities

- potential labour market failures
- the impact of government, community and private provision
- the concept and workforce implications of integrated service delivery.

The final report is to be released within 12 months of commencing the study.

### **Economic Regulation of Airport Services**

On 15 December 2010 the Assistant Treasurer asked the Commission to conduct an inquiry into the current economic regulation arrangements for airport services. A final report is to be produced within twelve months of receipt of the reference.

In undertaking the Inquiry, the Commission is requested to:

- report on the appropriate economic regulation of airport services, including the effectiveness of the price and quality of service monitoring, in achieving the following objectives:
  - promoting the economically efficient and timely operation, use of and investment in airports and related industries
  - minimising unnecessary compliance costs
  - facilitating commercially negotiated outcomes in airport operations.
- The inquiry is to focus on the provision of passenger transport services at and surrounding main passenger airports operating in Australia's major cities.
- The Commission is to examine:
  - aeronautical services and facilities provided by airport operators
  - passenger-related aeronautical services and facilities provided by major airline tenants
  - the provision and quality of land transport facilities providing access to the airports.
- In undertaking its assessment, the Commission is to examine the economy-wide costs and benefits and distributional impacts of the regime. As far as practical, the Commission should seek to quantify and provide evidence for these costs and benefits. It should also seek to provide international comparisons of the performance of the airport operators.

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- The Commission should consider:
    - whether the existing regime is effective in appropriately deterring potential abuses of market power by airport operators
    - whether the existing range of remedies is effective in dealing with potential and suspected abuses of market power
    - the effectiveness of the monitoring regime conducted by the ACCC, including the methodology used and the adequacy of the information collected
    - whether the current regime impacts on the ability of airports to price, operate and invest in airport infrastructure in an efficient and timely manner
    - whether the coverage of the current regime is appropriate
    - any improvements or enhancements that could be made to the existing regime
    - the appropriate future role of the regime
    - the adequacy and arrangements for the control of planning, operation and service quality monitoring of land transport access to major airports
    - whether existing arrangements for the planning and operation of land transport linkages to the airports are effective.
  - To the extent applicable, the Commission is to have regard to the ACCC's Airport Monitoring Reports. This includes the matters raised by the ACCC in these reports such as:
    - the quality of service at major Australian airports
    - landside access to airport terminals such as car parking and its alternatives, and the cost and quality of car parking facilities
    - the extent to which monitored airports can act strategically to raise costs of on-airport car parking by controlling the conditions of landside access to terminal facilities.
  - The regulatory price cap and price notification regime for regional air services into and out of Sydney Airport (Declaration 92 under section 95X and Direction 32 under section 95ZH of the *Trade Practices Act 1974*) is not within the scope of this inquiry.
  - The second tier self-administered price and quality of service monitoring regime is not within the scope of this inquiry.

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## **Economic Structure and Performance of the Australian Retail Industry**

On 18 December 2010, the Assistant Treasurer, the Minister for Broadband, Communications and the Digital Economy, the Minister for Home Affairs and Justice and the Minister for Small Business announced that the Commission would undertake an inquiry into the economic structure and performance of the Australian retail industry. The Terms of Reference were received from the Assistant Treasurer on 3 February 2011, and the Commission is required to produce a final report by November 2011.

The Commission is requested to examine:

- The current structure, performance and efficiency of the retail sector and impediments to its contribution to the Australian economy.
- The drivers of structural change in the retail industry, including globalisation, increasing household and business access to the digital economy, cost structures of the domestic retail industry, employment structure, the exchange rate and structural change driven by the resources boom.
- The broader issues which are contributing to an increase in online purchasing by Australian consumers and the role of online purchasing in providing consumers with greater choice, access and convenience.
- The sustainability and appropriateness of the current indirect tax arrangements in this environment, including the impact on Commonwealth and State and Territory budgets, and the extent to which technology could reduce the administrative costs of collecting indirect taxes and duty on imported goods.
- Any other regulatory or policy issues which impact on structural change in the sector.

## **Education and Training Workforce: Schools**

The Commission commenced the third of its education workforce studies, on the workforce in the schools sector, on 18 April 2011. The final report will be released within 12 months of commencing the study.

As part of its study, the Commission is asked to specifically consider and give advice on:

- The current and future supply for the schools workforce, including:
  - the availability and quality of pre-service education programs, including through undergraduate and postgraduate education, and VET

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- government programs targeting supply pressures, including the extent to which there is national cohesion in relation to these programs
  - motivation for entering, remaining in and exiting the schools workforce and the attraction and retention of principals in changing contexts
  - schools workforce participation, including ease of access to the teacher profession and/or schooling workforce, net returns to individuals, recognition of industry expertise, wastage rates in teacher training and underutilisation of qualified teachers (such as loss of qualified teachers to other occupations or overseas).
  - The structure and mix of the workforce and its consequent efficiency and effectiveness, including:
    - the composition and skills of the existing workforce
    - the productivity of the workforce and the scope for productivity improvements, qualifications pathways
    - how the current delineation of duties supports or impedes the achievement of COAG outcomes.
  - Workforce planning, development and structure in the short, medium and long term:
    - the extent to which current sectoral boundaries promote or limit efficiency and effectiveness in schools workforce
    - interface with suppliers of pre-service training (undergraduate, post-graduate and VET)
    - the quality and culture of the workforce and its employers, and their contribution to achieving COAG outcomes and setting future directions.

## **Annual Review of Regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms**

On 24 May 2011 the Commission was advised of a change in the terms of reference for the fifth year of reporting under the Annual Review of the Regulatory Burdens on Business stream of work. The new reference asks the Commission to undertake a review to propose frameworks and approaches that will be effective in identifying poorly performing areas of regulation and reform priorities.

In undertaking the review, the Commission has been asked to:

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- examine lessons gathered in Australia and overseas in reviewing regulation, identifying regulatory reform opportunities and priorities, and evaluating regulation reform outcomes
  - build on such lessons to analyse possible frameworks and approaches for identifying poorly performing areas of regulation and regulatory reform priorities, and both qualitative and quantitative methods for evaluating regulation reform outcomes.

In proposing enhanced frameworks and approaches to identify poorly performing areas of regulation and regulatory reform priorities, and methods for evaluating reform outcomes, the Commission is to:

- seek public submissions and consult with interested parties as necessary
- have regard to any other relevant current or recent reviews commissioned by Australian governments
- have regard to the assessment of the OECD in its 2009 *Review of Regulatory Reform in Australia — Towards a Seamless National Economy* that there is likely to be limited scope for gains to regulatory quality through a further tightening of existing processes.

The Commission is to produce a final report within six months of receipt of the reference.

### **Performance Benchmarking of Australian Business Regulation: Role of Local Government**

On 4 July 2011, the Australian Government, with the agreement of COAG's Business Regulation and Competition Working Group, requested that the Commission undertake a benchmarking study into the role of local government as a regulator. The study is the fourth in a series of reviews benchmarking Australian business regulatory burdens.

In undertaking the study, the Commission has been requested to benchmark the extent to which particular approaches to the exercise of regulatory responsibilities by local government authorities affects costs incurred by business and specifically to:

- identify the scope of local government regulatory responsibilities in each state and territory
- clarify the extent to which the local government role includes implementing policies of national and state/territory governments

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- assess whether different responsibilities and the approach taken to their exercise has a material impact on business costs
  - identify best practices which have the capacity to reduce unnecessary regulatory costs for business.

The study will develop indicators to benchmark the performance of jurisdictions and facilitate regulatory improvements, and will draw on leading practice approaches both across Australia and overseas. The Commission is to produce a final report within twelve months of receipt of the reference.

### **Impacts and Benefits of COAG Reforms: Letter of direction**

On 22 August 2011 the Assistant Treasurer wrote to the Commission providing further guidance on areas of focus for the next stage of its study on the impacts and benefits of COAG reforms.

The letter asked that, in undertaking the next stage of its study, the Commission:

- should examine areas of COAG's competition and regulation stream likely to have realised or prospective impacts. In this context, the Commission was asked to focus on 14 completed deregulation reforms (pending COAG's agreement to the completion of the food reform), the Personal Property Securities and Occupational Health and Safety reforms which are scheduled to be operational by 1 January 2012, and the National Construction Code reform which is substantially complete.
- also examine the impact of education and training reforms in the human capital reform stream within its first report. The Commission was asked to focus on the impacts of reforms to vocational education and training on productivity and workforce participation. The Commission was also asked to examine initiatives that support young people and disadvantaged groups in making a successful transition from school to further education, training or employment as part of its analysis.

The letter of direction also amended the original reporting deadline and requested that the Commission now provide its report by the end of March 2012.

### **Export Credit Arrangements**

The Assistant Treasurer asked the Commission to consider arrangements for the provision of export credit through the Export Finance and Insurance Corporation (EFIC) on 1 September 2011.

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In undertaking the inquiry, the Commission has been asked to:

- review government involvement in the provision of export credit and assess current arrangements against the requirements of the Export Finance and Insurance Corporation Act 1991
- review EFIC's exemption from competitive neutrality legislation, its funding, pricing and service arrangements, and assess their impact on private sector provision of financial products and services which support Australian export trade
- assess the interactions between EFIC and other government programs and consider alternatives that would achieve EFIC's objectives.

The Commission is required to present its final report to government within nine months of receipt of the reference.

### **Climate Change Adaptation**

On 20 September 2011 the Assistant Treasurer asked the Commission to undertake an inquiry into barriers to effective climate change adaptation. The inquiry covers regulatory and policy barriers that inhibit the ability of the community to adapt effectively to climate change.

In undertaking the inquiry, the Commission has been asked to identify any specific barriers to effective adaptation, and high priority options for addressing those barriers. In doing so the Commission is to:

- examine the costs and benefits of the options to address those barriers where it is feasible to do so, including a 'no change' (maintaining the status quo) option
- assess the role of markets (including insurance markets) and non-market mechanisms in facilitating adaptation, and the appropriateness of government intervention.

The Commission is required to present its final report to government within twelve months of receipt of the reference.

### **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 1 October 2011. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

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## Wheat Export Marketing Arrangements

Inquiry Report No. 51 signed 1 July 2010, report released 28 October 2010.

The Commission's main findings and recommendations were that:

- The transition to competition in the exporting of bulk wheat has progressed relatively smoothly, particularly given difficult international trading conditions — a pronounced commodity price cycle, the global financial crisis, and exchange rate appreciation.
- The regulatory arrangements for marketing bulk wheat exports have been beneficial during the transitional phase since deregulation. They have given growers confidence in adjusting to deregulation and facilitated the rapid entry of 28 accredited traders, with 12 million tonnes exported to 41 countries in the first year after deregulation.
- A range of marketing options has become available since deregulation. However, some growers prefer the previous single desk arrangements.
- The benefits of accreditation of traders will rapidly diminish in the post transitional phase, leaving only the costs. The accreditation scheme, Wheat Exports Australia and the Wheat Export Charge should be abolished on 30 September 2011.
- The port terminal access test has provided greater certainty for traders and made access easier, more timely and less costly than it could have been by relying on potential declaration under Part IIIA of the Trade Practices Act.
- However, there are still some transitional issues associated with port access and contestability in the logistics supply chain. The access test accordingly should remain a condition for port operators to export bulk wheat until 30 September 2014.
- The benefits of the access test will diminish and could become costly in the long term without the checks and balances of Part IIIA of the Trade Practices Act. From 1 October 2014, regulated access should rely on Part IIIA, with continuation of mandatory disclosure, supplemented by a voluntary code of conduct by all port terminal services operators.
- There is evidence that increasing on-farm storage, and competition between road and rail, are leading to improvements in supply chain efficiency. However, it is important that the regulatory arrangements enhance efficiency in the transport and storage market by facilitating contestability.
  - The Commission supports the decision by the ACCC to review the exclusive dealing notification in relation to Grain Express in Western Australia.

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- The level and allocation of investment in road and rail infrastructure by governments should be based on rigorous cost-benefit analysis, with a focus on developing economically and socially efficient logistics chains.
  - Monthly information by state on stocks, exports and domestic uses facilitates an efficient wheat market. Industry should consider funding its continuation.
  - The provision of most other ‘industry good’ functions is best left to the industry.

### *Government decision*

On 23 September 2011 the Government released a response to the Commission’s report (Australian Government 2011f). The Government agreed in-principle with the Commission’s recommendations to abolish the Wheat Export Accreditation Scheme, Wheat Exports Australia and the Wheat Export Charge on 30 September 2011, and remove the access test requirements for grain port terminal operators on 30 September 2014. However it proposed a more gradual, three-stage approach in transitioning to full market deregulation, involving:

- a first stage introduction of a ‘lighter touch’ accreditation scheme between 1 October 2011 and 30 September 2012
- removal in the second stage of Wheat Exports Australia and the Wheat Export Charge from 1 October 2012
- introduction of full deregulation, with access issues governed by general competition law, in a third stage commencing from 1 October 2014.

In announcing the response, the Minister for Agriculture, Fisheries and Forestry, Senator Joe Ludwig, stated that:

The Government supports the recommendations provided by the Commission and believes they will improve future wheat marketing arrangements. (Ludwig 2011)

## **Rural Research and Development Corporations**

Inquiry Report No. 52 signed 10 February 2011, report released 15 June 2011.

The Commission’s main findings and recommendations were that:

- Through the Rural Research and Development Corporations (RDCs), rural industries and the Australian Government together invest some \$490 million a year in R&D.
- This co-investment model has important strengths, including: helping to ensure that public money is not spent on research of little practical value; and facilitating greater and faster uptake of research outputs.

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- However, as currently configured, the model has some significant shortcomings.
    - It does not cater well for broader rural R&D needs.
    - The overall level of public support for industry-focused research is too high given the sound financial reasons that producers or industries would have to fully fund much of this research themselves.
    - The basis for the Government’s matching contribution to RDCs provides no incentive for producers to increase their investments in the model over time.
  - While the broad model should be retained, significant changes to the way in which the Government contributes its funding are therefore called for. Specifically:
    - The current cap on dollar for dollar matching of industry contributions by the Government should be halved over a ten-year period.
    - A new, uncapped, subsidy at the rate of 20 cents in the dollar should be immediately introduced for industry contributions above the level that attracts dollar for dollar matching.
    - A new, government-funded, RDC — Rural Research Australia (RRA) — should be created to sponsor broader rural research. With RRA in place, the other RDCs (except for the Fisheries RDC) should be left to focus predominantly on funding research of direct benefit to their industry constituents.
  - These new arrangements would result in a modest reduction in total government funding for the RDC model — though with a similarly modest increase in private contributions, the overall amount of funding available to the RDCs could increase.
    - More importantly, the redistribution of some public money to broader research would deliver better value for the community from its investment in the model.
  - These funding changes should be supported by a new set of program principles, setting out the broad obligations on RDCs in return for their public funding and how the Government should discharge its responsibilities on behalf of the wider community.
  - Some more specific changes should also be made, including to:
    - enable (though not require) the appointment of a ‘government director’ to the board of an RDC
    - improve the robustness and transparency of project evaluations, independent performance reviews, and the monitoring of program outcomes by the Government.

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- There is also a need for better data on overall rural R&D funding and spending.
    - However, overlaying the framework with a target level of total spending on rural R&D, or a target ‘research intensity’, would not be appropriate.

### *Government decision*

The Australian Government released a preliminary response to the Commission’s report on 15 June 2011. This stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission’s recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.

## **Caring for Older Australians**

Inquiry Report No. 53 signed 28 June 2011, report released 8 August 2011.

The Commission’s main findings and recommendations were that:

- Over one million older Australians receive aged care services. The range and quality of these services have improved over past decades, but more needs to be done.
- Future challenges include the increasing numbers and expectations of older people, a relative fall in the number of informal carers, and the need for more workers. By 2050, over 3.5 million Australians are expected to use aged care services each year.
- The aged care system suffers key weaknesses. It is difficult to navigate. Services are limited, as is consumer choice. Quality is variable. Coverage of needs, pricing, subsidies and user co-contributions are inconsistent or inequitable. Workforce shortages are exacerbated by low wages and some workers have insufficient skills.
- The Commission’s proposals address these weaknesses and challenges and aim to deliver higher quality care. The focus is on the wellbeing of older Australians — promoting their independence, giving them choice and retaining their community engagement. Under this integrated package of reforms, older Australians would:
  - be able to contact a simplified ‘gateway’ for: easily understood information; an assessment of their care needs and their financial capacity to contribute to

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- the cost of their care; an entitlement to approved aged care services; and for care coordination — all in their region
- receive aged care services that address their individual needs, with an emphasis on reablement where feasible
  - choose whether to receive care at home, and choose their approved provider
  - contribute, in part, to their costs of care (with a maximum lifetime limit) and meet their accommodation and living expenses (with safety nets for those of limited means)
  - have access to a government-sponsored line of credit (the Australian Aged Care Home Credit scheme), to help meet their care and accommodation expenses without having to sell their home. A person's spouse, or other 'protected person' would be able to continue living in that home when an older person moved into residential care
  - choose to pay either a periodic charge or a bond for residential care accommodation
  - if they wish to sell their home, retain their Age Pension by investing the sale proceeds in an Australian Age Pensioners Savings Account
  - have direct access to low intensity community support services
  - be able to choose whether to purchase additional services and higher quality accommodation.
- Limits on the number of residential places and care packages would be phased out, while distinctions between residential low and high care and between ordinary and extra service status would be removed.
  - Safety and quality standards would be retained. An Australian Aged Care Commission would be responsible for quality and accreditation; and would transparently recommend efficient prices to the Government.

## **Disability Care and Support**

Inquiry Report No. 54 signed 31 July 2011, report released 10 August 2011.

The Commission's main findings and recommendations were that:

- Most families and individuals cannot adequately prepare for the risk and financial impact of significant disability. The costs of lifetime care can be so substantial that the risks and costs need to be pooled.
- The current disability support system is underfunded, unfair, fragmented, and inefficient, and gives people with a disability little choice and no certainty of

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access to appropriate supports. The stresses on the system are growing, with rising costs for all governments.

- There should be a new national scheme — the National Disability Insurance Scheme (NDIS) — that provides insurance cover for all Australians in the event of significant disability. Funding of the scheme should be a core function of government (just like Medicare).
- The main function (and source of cost) of the NDIS would be to fund long-term high quality care and support (but not income replacement) for people with significant disabilities. Everyone would be insured and around 410 000 people would receive scheme funding support.
- The NDIS would have other roles. It would aim to better link the community and people with disabilities, including by using not-for-profit organisations. It would also provide information to people, help break down stereotypes, and ensure quality assurance and diffusion of best practice among providers.
- The benefits of the scheme would significantly outweigh the costs. People would know that, if they or a member of their family acquired a significant disability, there would be a properly financed, comprehensive, cohesive system to support them. The NDIS would only have to produce an annual gain of \$3800 per participant to meet a cost-benefit test. Given the scope of the benefits, that test would be passed easily.
- The scheme should involve a common set of eligibility criteria, entitlements to individually tailored supports based on the same assessment process, certainty of funding based on need, genuine choice over how their needs were met (including choice of provider) and portability of entitlements across borders. There would be local area coordinators and disability support organisations to provide grass roots support. The insurance scheme would take a long-term view and have a strong incentive to fund cost effective early interventions, and collect data to monitor outcomes and ensure efficiency.
- The above features would be best met by a having a single agency overseeing the NDIS — the National Disability Insurance Agency. It would be created by, and report to, all Australian governments. It would have strong governance arrangements, with an independent commercial board, an advisory council of key stakeholders, clear guidelines to ensure a sustainable and efficient scheme, and legislation that protected the scheme from political influences.
- It would be the assessor and funder, but not the provider of care and support. Services would be provided by non-government organisations, disability service organisations, state and territory disability service providers, individuals and mainstream businesses. Increased funding, choice and certainty are the key

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features of the recommended scheme. Advocacy would be funded outside the scheme.

- An alternative but inferior option would be a ‘federated’ NDIS. This would give state and territory governments control over their own systems, but with some common core features. Such an arrangement could easily revert to the current flawed and unfair system, with ‘agreements’ breaking down into disputes about who is to pay, how much and for what.
- People would have much more choice in the proposed NDIS. Their support packages would be tailored to their individual needs. People could choose their own provider(s), ask an intermediary to assemble the best package on their behalf, cash out their funding allocation and direct the funding to areas of need (with appropriate probity controls and support), or choose a combination of these options.
- The NDIS would cover the same types of supports currently provided by specialist providers (but with sufficient funding), give people more opportunity to choose mainstream services, and encourage innovative approaches to support.
- The Australian Government currently provides funding to the disability sector of around \$2.3 billion, while state and territory governments provide funding of around \$4.7 billion — a total of over \$7 billion.
- Current funding for disability is subject to the vagaries of governments’ budget cycles. People with disabilities have no certainty that they will get reasonable care and support over the long run. Resourcing might be good one year, but insufficient the next, with many people missing out. The Commission estimates that the amount needed to provide people with the necessary supports would be about double current spending (an additional \$6.5 billion per annum).
- The Commission proposes several options for providing certainty of future funding. Its preferred option is that the Australian Government should finance the entire costs of the NDIS by directing payments from consolidated revenue into a ‘National Disability Insurance Premium Fund’, using an agreed formula entrenched in legislation. The amount needed could be funded through a combination of cuts in existing lower-priority expenditure, fiscal drag, and if necessary, tax increases.
- A less preferred option is that all governments could pool funding, subject to a long-run arrangement based on the above formula, and with pre-specified funding shares. This would need to be closely monitored by transparent accounting and penalties for failure to meet commitments.
- The scheme would gradually be rolled out from mid-2014. It would start in a few regions. That would allow fine-tuning of the scheme, while providing high quality services to many thousands of people. In 2015-16, the scheme should

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cover all regions of Australia for the highest priority groups, and should progressively expand until the scheme covered all people by the end of 2018-19.

- A separate scheme is needed for people requiring lifetime care and support for catastrophic injuries — such as major brain or spinal cord injuries. Currently, many Australians get poor care and support when they acquire such injuries because they cannot find an at-fault party to sue.
- A no-fault National Injury Insurance Scheme, comprising a federation of individual state and territory schemes, would provide fully-funded care and support for all cases of catastrophic injury. It would draw on the best schemes currently operating around Australia. State and territory governments would be the major driver, developing a comprehensive scheme by 2015.

### *Government decision*

On 10 August 2011 the Australian Government provided an initial response to the Commission's report (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' It also stated that:

In line with the Productivity Commission's recommendations, the Government, with the States and Territories, will start work immediately on building the foundations for reform. We will:

- Deliver an immediate, additional \$10 million, consistent with the PC recommendations, to support this technical policy work;
- Move to establish a COAG Select Council of Ministers from the Commonwealth, States and Territories to lead reform in this area at COAG next month;
- Take steps to establish an Advisory Group to the Select Council, led by Dr Jeff Harmer, to provide expert advice on delivering the foundations for reform and preparation for launch. (Gillard et al. 2011)

The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.

## **Bilateral and Regional Trade Agreements**

Research Report completed 27 November 2010, report released 13 December 2010.

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The Commission's main findings and recommendations were that:

- In line with global trends, Australia has recently entered a number of new bilateral and regional trade agreements (BRTAs) and is negotiating several more.
- The Australian Government's approach has been to negotiate comprehensive agreements that seek substantial reductions in trade barriers.
  - For merchandise trade, recent BRTAs have resulted in some significant bilateral tariff reductions both in Australia and in partner countries.
  - For services and investment trade, BRTAs typically limit discrimination between suppliers.
  - Australia's agreements have often also included provisions on matters such as intellectual property, competition policy and trade facilitation.
- Theoretical and quantitative analysis suggests that tariff preferences in BRTAs, if fully utilised, can significantly increase trade flows between partner countries, although some of this increase is typically offset by trade diversion from other countries.
  - The increase in national income from preferential agreements is likely to be modest.
- The Commission has received little evidence from business to indicate that bilateral agreements to date have provided substantial commercial benefits.
  - This may be because the main factors that influence decisions to do business in other countries lie outside the scope of BRTAs.
- Domestic economic reform offers relatively large economic benefits and should not be delayed to retain 'bargaining coin'.
- In the international arena, the Australian Government should continue to pursue progress in the Doha Round. Building the case for substantive reductions in trade barriers internationally requires improvements in domestic transparency and policy analysis within each country.
- While BRTAs can reduce trade barriers and help meet other objectives, their potential impact is limited and other options often may be more cost-effective.
- Current processes for assessing and prioritising BRTAs lack transparency and tend to oversell the likely benefits.
- To help ensure that any further BRTAs entered into are in Australia's interests:
  - Pre-negotiation modelling should include realistic scenarios and be overseen by an independent body. Alternative liberalisation options should also be considered.

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- A full and public assessment of a proposed agreement should be made after negotiations have concluded — covering all of the actual negotiated provisions.
  - The Government should also develop and publish an overarching trade policy strategy, to better coordinate and track the progress of trade policy initiatives, and to ensure that efforts are devoted to areas of greatest likely return.

### *Government decision*

In April 2011 the Australian Government released a Trade Policy Statement (Australian Government 2011c). It stated that:

The Productivity Commission's report into bilateral and regional trade agreements released in late 2010 has been closely considered in the preparation of this review, and its policy positions are highly consistent with the Productivity Commission's recommendations.

The Statement also provided detailed responses to the Commission's recommendations, and 9 of the 10 recommendations in the Commission's report were accepted. The Government also agreed in part to the outstanding recommendation, but did not agree with the Commission's view that an independent and transparent assessment of the final text of agreements should be commissioned and published at the conclusion of negotiations, but before an agreement is signed.

### **Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Land Development Assessments**

Research Report completed 29 April 2011, report released 16 May 2011.

The Commission's main findings and recommendations were that:

- Planning systems vary greatly across the states and territories — but all suffer from 'objectives overload' which has been increasing.
- The success of local councils in delivering timely, consistent decisions depends on their resources as well as their processes. It is also influenced by the regulatory environment created by state governments — in particular the clarity of strategic city plans, the coherence of planning laws and regulations, and how well these guide the creation of local level plans and the assessment of development applications.
- Significant differences in state and territory planning systems include the degree of integration between planning and infrastructure plans, and how capably the states manage their relationships with and guidance for their local councils.

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- Significant differences between jurisdictions are evident for:
    - business costs — such as the median time taken to assess development applications and the extent of developer charges for infrastructure
    - the amount of land released for urban uses
    - the provision made for appeals and alternative assessment mechanisms
    - community involvement in influencing state and city plans, in development assessment and in planning scheme amendments (such as rezoning).
  - Competition restrictions in retail markets are evident in all states and territories. They arise: from excessive and complex zoning; through taking inappropriate account of impacts on established businesses when considering new competitor proposals; and by enabling incumbent objectors to delay the operations of new developments.
  - Leading practices to improve planning, zoning and assessment include:
    - providing clear guidance and targets in strategic plans while allowing flexibility to adjust to changing circumstances and innovation (so long as good engagement, transparency and probity provisions are in place)
    - strong commitment to engage the community in planning city outcomes
    - broad and simple land use controls to: reduce red tape, enhance competition, help free up urban land for a range of uses and give a greater role to the market in determining what these uses should be
    - rational and transparent rules for charging infrastructure costs to businesses
    - risk-based and electronic development assessment
    - timeframes for referrals, structure planning and rezoning
    - transparency and accountability, including for alternative rezoning and development assessment processes as well as having limited appeal provisions for rezoning decisions
    - limiting anti-competitive objections and appeals, with controls on their abuse
    - collecting and publishing data on land supply, development assessment and appeals.

## **Vocational Education and Training Workforce**

Research Report completed and released 21 April 2011.

Key points from the report were that:

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- The Vocational Education and Training (VET) workforce builds Australia’s human capital and contributes to its economic prosperity by equipping workers with the skills that industry needs. The VET workforce also contributes to social inclusion and civic participation.
  - There are nearly 5000 Registered Training Organisations (RTOs), ranging from large, broad-based Technical and Further Education (TAFE) institutes to private sector and enterprise-based RTOs of varying size and scope.
  - The VET workforce comprises about 73 000 TAFE employees and an estimated 150 000 who work for other VET providers. It includes trainers and assessors, other professionals and general staff. It has a greater proportion of part-time, casual and older workers, compared with the general labour force.
  - VET trainers and assessors are required to be ‘dual professionals’, having both industry currency and educational capabilities.
  - At an aggregate level, the current VET workforce numbers, profile and capability meet many of the existing demands on the VET sector.
  - However, some clear deficiencies should be addressed. The VET sector requires: more trainers and assessors with industry skills in demand; greater attention to meeting changing contemporary skills needs; and a wider base of the VET workforce that has at least basic educational capabilities.
  - A confluence of demographic, economic and regulatory factors will introduce greater challenges for the VET sector over coming years. Necessary reforms, that will improve the VET workforce’s capacity and capability, include:
    - a more flexible industrial relations regime in the TAFE sector, to facilitate recruitment and retention in areas of skill scarcity
    - more consistent delivery of the Certificate IV in Training and Assessment (TAA) to the required regulatory standard, to improve basic educational capability and consumer confidence. All practitioners in the VET sector should hold a teaching qualification commensurate with their role
    - action to remedy gaps in the: delivery of higher-level qualifications; assessment of Recognition of Prior Learning and of Current Competency; use of information and communication technologies; and development of managerial and leadership skills
    - the deployment of strategies that enhance the contemporary vocational competence of those workers with long tenures or who are employed only in the VET sector
    - more targeted and evidence-based professional development that addresses identified capability requirements of the workforce.

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- Better data — particularly covering the private VET sector — are urgently required to inform policy strategies and assist with workforce planning.

## **Impacts and Benefits of COAG Reforms: Framework Report**

Research Report completed and released 23 December 2010.

Key points from the report were that:

- The Commission has been requested to report every two to three years to COAG on the economic ‘impacts and benefits’ of COAG reforms. The Commission is also required to consider the extent to which Australia’s reform potential is being achieved and opportunities for improvement.
  - In preparation for its first report, the Commission has been requested to provide this framework report outlining its proposed approach.
- As in earlier exercises, the Commission will adopt an economy-wide approach for its assessments.
  - The proposed framework recognises the direct and wider flow-on effects of reforms. As far as practicable, costs incurred by government to achieve reform objectives and outcomes will also be taken into account.
- The framework will provide for the quantification of the impacts of COAG reforms on national economic activity, employment and income. It will also provide quantification of fiscal, as well as State, regional and other distributional effects of change.
  - The Commission proposes to use a ‘dynamic general equilibrium model’ to project economy-wide impacts.
- Where practicable, the social and environmental impacts will also be assessed.
  - Although not in comparable metrics, available indicators will be drawn on to help provide a broader assessment of the overall impacts of reform.
- The Commission will group reforms into three broad streams: competition and regulation; human capital (including health, education and training); and the environment.
  - The proposed framework will account for differing lead times and the implications of changing demographic and economic characteristics on reform impacts.
- Taking into account the progressive development and implementation of COAG’s reforms, it is proposed that the Commission’s first report provide:
  - an overview of the agenda and the potential for gains;

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- an assessment of areas of the competition and regulation stream for which policy development and implementation are advanced; and
  - an assessment of an area of the human capital stream, such as education, where agreements have been concluded and there are some realised as well as prospective impacts.
- It is proposed that the Commission progressively report across the three reform streams in subsequent reports.

## **Emission Reduction Policies and Carbon Prices in Key Economies**

Research Report completed 31 May 2011 and released 9 June 2011.

On 15 November 2010, the Australian Government asked the Commission to undertake a study on the effective carbon prices that result from emissions and energy reduction policies in Australia and other key economies.

The Commission was to:

- examine and detail key emissions reduction policies either in place or committed in Australia and other key economies, such as the UK, USA, Germany, New Zealand, China, India, Japan and South Korea
- estimate the effective carbon price per tonne of carbon dioxide equivalent (CO<sub>2</sub>-e) faced by the electricity generation sectors in these economies, and selected industries drawn from manufacturing and transport sectors in these and other countries where relevant and data permitting
- report on the methodology, assumptions and data sources used, so as to inform further analysis in this area.

Key points from the report were that:

- More than 1000 carbon policy measures were identified in the nine countries studied, ranging from (limited) emissions trading schemes to policies that support particular types of abatement technology.
  - As policies have been particularly targeted at electricity generation and road transport emissions, the Commission analysed major measures in these sectors.
- While these disparate measures cannot be expressed as an equivalent single price on greenhouse gas emissions, all policies impose costs that someone must pay. The Commission has interpreted ‘effective’ carbon prices broadly to mean the cost of reducing greenhouse gas emissions — the ‘price’ of abatement achieved by particular policies.

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- The Commission's estimates essentially provide a snapshot of the current cost and cost effectiveness of major carbon policies.
    - The subsidy equivalent, abatement achieved and implicit abatement subsidy have been calculated for policies and aggregated by sector in each country.
  - As a proportion of GDP, Germany was found to have allocated more resources than other countries to abatement policies in the electricity generation sector, followed by the UK, with Australia, China and the US mid-range.
  - Estimates of abatement relative to counterfactual emissions in the electricity generation sector followed a similar ordering, with Germany significantly ahead, followed by the UK, then Australia, the US and China.
  - The estimated cost per unit of abatement achieved varied widely, both across programs within each country and in aggregate across countries.
    - Emissions trading schemes were found to be relatively cost effective, while policies encouraging small-scale renewable generation and biofuels have generated little abatement for substantially higher cost.
  - The relative cost effectiveness of price-based approaches is illustrated for Australia by stylised modelling that suggests that the abatement from existing policies for electricity could have been achieved at a fraction of the cost.
    - However, the estimates cannot be used to determine the appropriate starting price of a broadly-based carbon pricing scheme.
  - The estimated price effects of supply-side policies have generally been modest, other than for electricity in Germany and the UK.
    - Such price uplifts are of some relevance to assessing carbon leakage and competitiveness impacts, but are very preliminary and substantially more information would be required.

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

### **Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector**

Research Report completed 9 April 2009, report released 30 April 2009.

On 25 May 2011, the Hon Martin Ferguson, Minister for Resources and Energy released the Commonwealth Government's Response to the Productivity Commission Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector. The Government agreed to a large majority (25 of 30) of the recommendations made in the Commission's report.

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Earlier agreement was provided to these recommendations by the Ministerial Council on Mineral and Petroleum Resources (MCMPR) in December 2009. The MCMPR also agreed to implementation plans for these recommendations and forwarded them to COAG. Implementation of these 25 agreed recommendations is underway.

### **Paid Parental Leave: Support for Parents with Newborn Children**

Inquiry Report No. 47 signed 28 February 2009, report released 12 May 2009.

As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme introduced was closely based on that proposed in the Commission's final inquiry report. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government initially deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.

Subsequently, in 2011 the Government also introduced provision for two weeks paternity leave in line with the Commission's recommendation.

### **Australia's Anti-dumping and Countervailing System**

Inquiry Report No. 48 signed 18 December 2009, report released 27 May 2010.

The Minister for Home Affairs and Justice, Brendan O'Connor, and the Minister for Trade, Dr Craig Emerson, announced a response to the Commission's report on 22 June 2011 (Australian Government 2011d). The Government agreed or agreed in-principle to 15 of the report's 20 recommendations. These covered a range of issues, including working groups to examine the close processed agricultural goods provisions; not adopting the practice of zeroing; updating actionable subsidies to align with the latest relevant WTO agreements; arrangements for Customs to seek extensions of investigation periods; the introduction of a 30 day time limit for the Minister to make decisions; adequate resourcing for Customs and Border Protection and the Trade Measures Review Officer; advice to the Minister in investigation reports of the details of comparable recent cases in other countries; consultation with the ABS regarding better access to import data; and a five-year review of proposed reforms. The Government did not accept the Commission's recommendation concerning the introduction of a public interest test.

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## **Annual Review of Regulatory Burdens on Business – Business and Consumer Services**

Research Report completed 31 August 2010, report released 12 October 2010.

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. The cycle commenced in April 2007 with a review of the regulatory burdens on businesses in Australia's primary sector.

The fourth yearly review reported on regulatory burdens in the business and consumer service industries. In broad terms, this includes financial and insurance services, accommodation and food services, hiring, real estate, professional and personal services, arts and recreation, and repair and maintenance services the business and consumer services area.

The Australian Government released a response to the report on 13 September 2011 (Australian Government 2011e). The Commission's report made 18 recommendations, covering issues including government consultation, superannuation, rationalisation of legacy financial products, monetary thresholds applying to overseas investment in Australia and national registration of architects. The Government accepted or accepted in principle ten of the recommendations and noted eight recommendations.

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## F 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, 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 2010-11, as well as briefings to international visitors.

### **Commission Research Papers**

#### **Population and Migration: Understanding the Numbers**

*December 2010*

In this Research Paper, the Commission sought to improve the information base for public discussion by describing the main demographic trends and what lies behind them. That said, it did not seek to be exhaustive, but rather to focus on those features that seem most important.

Key points of the study were:

- Since the 1980s, net overseas migration has overtaken natural increase as the major contributor to Australia's population growth.
- Although the total fertility rate in Australia has risen recently, it is still only half what it was in the early 1960s.
- Over the past century, life expectancy has increased significantly. This has mitigated the decline in natural increase and been the main contributor to the ageing of Australia's population.
- Migration flows are shaped by the economic and social motivations of migrants and by government policy in Australia.
  - Only the permanent migrant intake is controlled directly by the government, but migration is also influenced indirectly through other policy settings and conditions.

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- Net overseas migration has grown strongly during the past ten years, with most of the growth being in the ‘temporary’ categories.
    - Temporary migration contributes to Australia’s population growth in the long term as well as short term. In the last five years, many overseas students and skilled temporary migrant workers obtained permanent residency onshore.
  - The Humanitarian Program is a small component of the total migrant intake. Refugee visas granted to unauthorised arrivals do not increase its size.
  - Australia’s population is highly urbanised. In recent years, population growth in capital cities has exceeded growth in most other parts of the country.
  - Future population levels are sensitive to even minor variations in the components of population change and cannot be predicted with accuracy.
  - The economic effects of immigration and population growth are diverse, depending on source, composition and context.

## **Submissions**

### **Submission to the Rural Research and Development Council**

*February 2011*

In January 2011, the Rural Research and Development Council (‘the Council’) released a draft National Strategic Rural Research and Development Investment Plan (‘the draft plan’). The Council invited public comment on this draft plan, including from the Productivity Commission, before preparing a final version for the Minister for Agriculture, Fisheries and Forestry.

The Commission considered that it was well placed to comment on the draft plan, having just completed an inquiry on the Rural Research and Development Corporations (RDCs) (PC 2010); and having also undertaken a major study into public support for science and innovation in 2007.

The submission stated that there were a considerable number of aspects of the draft plan and its foundations which, based on its own studies, the Commission supported, including:

- the considerable benefits for both the rural sector and the wider community from soundly based investments in rural R&D.
- the role that collaborative research effort — including as appropriate with international entities — can play in improving research quality and allowing for investment in larger, potentially game changing, projects

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- the role of rural R&D in helping to integrate natural resource management within farming systems. (Partly for this reason, in its 2010 report on rural research and development the Commission proposed that the Government create and fund a new non-industry RDC, Rural Research Australia)
  - the potential to increase private investment in rural R&D. (Indeed, in the Commission's view, governments in Australia have been shouldering too much of the overall funding load, with the funding changes proposed in its report for the RDC program designed to gradually rebalance funding responsibilities within this one component of the framework at least. Some further commentary on the public/private funding interface is provided below)
  - the need to engender a culture of evaluation and a commitment to robust performance evaluation across the entirety of the rural R&D framework. (To this end, both the proposed public funding principles and RDC operating principles in its report made specific reference to evaluation, with the Commission also putting forward some specific enhancements to the performance evaluation and monitoring regime for the RDCs)
  - the difficulties created for effective policy making and program delivery by the fragmented nature of much of the rural R&D framework. (To build on current initiatives to address such fragmentation, in its report, the Commission proposed a new 'low key' mechanism to better coordinate the Australian Government's funding for rural R&D)
  - the difficulties created for effective policy making by the lack of robust data on funding and spending flows. (Thus, like the Council, in its report the Commission put forward a specific data improvement initiative)
  - the need to support human capital development through high quality education and training systems.

Nevertheless, the Commission had some concerns about the thrust of, and underpinning for, the Council's draft plan. These included:

- giving little weight to means other than domestic investment in research for improving the economic, environmental and social performance of the rural sector;
- a need to ensure that a concern to coordinate R&D programs and associated institutional structures does not unduly diminish diversity, flexibility and competition;
- the lack of a clear basis for determining when government should be involved in rural R&D investment decisions; and

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- little detail about the analytical underpinnings for many of the Council’s detailed findings and recommendations, including alternative approaches that may have been considered and rejected.

## **Submission to the Taskforce on the Sustainable Population Strategy for Australia**

*May 2011*

This submission to the Taskforce on a Sustainable Population Strategy for Australia was prepared initially as a background paper for attendees at a recent Commission Roundtable on the topic of ‘A ‘Sustainable’ Population? — Key Policy Issues’.

The paper set out a framework for exploring the different dimensions of ‘population policy’. It drew on earlier research by the Commission on the impacts of migration and population ageing and its analysis of recent trends, to:

- briefly describe recent population growth and its sources;
- set out a broad policy framework with the remaining sections addressing the potential impacts of population growth and the policy implications;
- provide an overview of the impacts of population growth on economic growth;
- discuss some implications for urban and environmental amenity; and
- provide a brief discussion of the potential social and cultural impacts.

## **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.*

## **Investments in Intangible Assets and Australia's Productivity Growth: Sectoral Estimates**

*Paula Barnes, July 2010*

This staff working paper examined sectoral investment in intangible assets in Australia following on from an examination of intangibles assets in the market sector as a whole (Barnes and McClure 2009). It highlighted some significant issues relating to the measurement of intangibles and their contribution to productivity, finding that estimates of intangibles at the aggregate level mask considerable sectoral differences.

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Key points of the paper included:

- In addition to tangible assets, such as plant and equipment, intangible assets, such as knowledge, firm-specific skills, and better ways of doing business, are important for economic growth.
- Most spending on intangibles is treated as a current expense in the national accounts rather than as an investment. This understates total investment and value added (production less intermediate inputs) in any period. The effect on measured productivity growth will vary by industry sector.
- Australian investment in intangibles in 2005-06 was estimated to be almost 65 per cent of tangible investment in the manufacturing sector, but only 50 per cent of tangible investment in the service sector.
  - Manufacturing invested almost \$14 billion in intangible assets, while the service sector invested \$35 billion.
  - By not fully capitalising intangibles, value added was understated by almost 13 per cent in manufacturing, and by almost 8 per cent in services.
  - Since 1993-94 average annual growth in total intangible investment in manufacturing has been somewhat less than in services; with relatively high growth rates in organisational capital (strategic planning, adaptation and reorganisation) and computerised information in both sectors.
  - Manufacturing invests a larger share of its total intangible investment in innovative property than does the service sector, as a result of the concentration of ‘traditional’ R&D in manufacturing. The service sector has a larger share in computerised information, while economic competencies account for around 50 per cent in each sector.
- Treating intangibles as investment increases both the capital stock and capital income. Hence the average rate of return on all capital can rise or fall. In practice, in each sector, capitalising the new intangibles increases the rate of return in about half the years and decreases it in the other half. Unmeasured intangibles do not appear to be the main factor behind rate of return differences between these sectors.
- Treating investment in intangible assets as capital raises measured final output and measured capital inputs and alters the capital-labour ratio. Hence the effect on measured multifactor productivity (MFP) growth is complex. While adjusting for the ‘new’ intangibles does not have a large direct effect on conventionally-measured MFP growth for the Australian market sector as a whole, this conceals considerable sectoral differences.

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- In the 1998-99 to 2003-04 productivity cycle, the contribution of these intangibles to conventionally-measured MFP growth was -0.03 of a percentage point in manufacturing but 0.15 of a percentage point in services.
  - In the period of the market sector productivity surge (1993-94 to 1998-99), the contribution was 0.09 of a percentage point in manufacturing but only 0.04 of a percentage point in services.
  - However, capitalising intangibles did not change the pattern of MFP growth between cycles in either sector in Australia — in contrast with Japan, where it changed in both sectors. Prior to capitalising intangibles, Australian service sector MFP growth in the early 2000s was higher than the Japanese rate, but after capitalising intangibles the rate was lower in Australia than in Japan.

## **Childhood Obesity: An Economic Perspective**

*Jacqueline Crowle and Erin Turner, September 2010*

Key points from the paper were:

- The weight of Australian children has increased markedly in recent decades, to the point where around 8 per cent are defined as obese (based on Body Mass Index), and 17 per cent as overweight.
- While the prevalence of obesity may have levelled off since the mid 1990s, it is still widely considered to be too high.
- Childhood obesity has been linked to a raft of physical and psychosocial health problems, including type 2 diabetes and cardiovascular disease, as well as social stigmatisation and low self-esteem.
- Simply put, obesity results from an imbalance between energy consumed and expended. But the underlying causes are complex and difficult to disentangle.
  - An economic perspective considers how individuals respond to changes in incentives, and how they make decisions involving tradeoffs between different consumption and exercise choices, including how they spend their time.
- Governments need to consider a range of issues in addressing childhood obesity.
  - Most of the costs of obesity are borne by the obese themselves and their families.
  - Market incentives to provide information about the causes and prevention of obesity are weak, creating a role for government. But unlike alcohol and tobacco consumption, the externalities (spillovers on unrelated third parties) associated with obesity are probably minor.

- 
- Behavioural limitations can influence how people use available information about preventing obesity — even when it is available — and their responses to incentives and tradeoffs. Children are particularly susceptible to these limitations and have difficulty taking into account the future consequences of their actions.
  - Obesity prevalence varies across the socioeconomic profile of the community, such that there can be important distributional issues.
  - The obese also consume a disproportionate share of medical services, which, equity considerations aside, adds to the costs of our public health system.
  - There is only limited evidence of interventions designed to address childhood obesity achieving their goals.
    - This could reflect the inherent complexities and the multiple causes of obesity.
    - But it might also reflect poor policy design and evaluation deficiencies.
  - Notwithstanding the lack of evidence of interventions reducing obesity, some studies suggest that they can positively influence children’s eating behaviours and levels of physical activity, which in turn might influence obesity over time.
  - The complex nature of the problem suggests that policies need to be carefully designed to maximise cost effectiveness, and trialled, with a focus on evidence gathering, information sharing, evaluation and consequent policy modification.

## **Links Between Literacy and Numeracy Skills and Labour Market Outcomes**

*Anthony Shomos, October 2010*

Key points were:

- Literacy and numeracy skills are key components of human capital, which is an important driver of economic growth.
- This paper utilises data from a 2006 survey on the literacy and numeracy skills of the Australian adult population. Analysis reveals that literacy and numeracy skills:
  - for nearly half of the population were assessed at either levels 1 (the lowest level) or 2, both of which are below the minimum level deemed necessary to participate in a knowledge-based economy (level 3).

- 
- vary according to a number of factors, and were generally highest for people who had either undertaken higher levels of education, were born in an English speaking country or were of prime working age (20–44 years old).
  - Models were used to estimate the effect of improved literacy and numeracy skills on the probability of labour force participation and on wages.
  - Results confirm previous research in the human capital literature — that improving literacy and numeracy skills has a positive, statistically significant effect on labour market outcomes.
  - More specifically, it was estimated that an improvement in literacy and numeracy skills from level 1 to level 3 would:
    - increase the likelihood of labour force participation by about 15 percentage points for women and about 5 percentage points for men
    - increase hourly wage rates by about 25 and 30 per cent for women and men respectively.
  - Improving educational attainment was also estimated to have a positive, statistically significant effect on labour force participation and on wages.
    - However, once literacy and numeracy skills were controlled for, the effect of increasing educational attainment on labour force participation and on wages was reduced. Some of the benefit occurs because more highly educated people tend to have higher literacy and numeracy skills.
  - Literacy and numeracy skills are developed through education, but they can also be enhanced in other ways.
    - Understanding the factors that influence literacy and numeracy skills is important and could be further explored with the data used in this paper.

## **Labour Force Participation of Women Over 45**

*Geoff Gilfillan and Les Andrews, December 2010*

Key points from the paper were:

- The contribution of mature aged women (aged 45 to 64 years) to total hours worked in the economy by people of working age has increased from 6 to 15 per cent over the past three decades.
  - Over 40 per cent of this growth has resulted from an increase in the share of mature aged women in the working age population; the rest is due mainly to a steady increase in the labour force participation rate. Work intensity has hardly changed.

- 
- The share in employment accounted for by mature aged women has increased across nearly all industries, including those where they have traditionally not been employed in large numbers.
  - Younger women today have both higher levels of education and labour force participation than mature aged women had when they were younger. It is likely, therefore, that participation rates for mature aged women will continue to rise as these younger women enter older age groups.
  - A woman's health status and caring responsibilities also influence her likelihood of participating in the labour force in later life. A mature aged woman is more likely to be in the labour force the longer her previous period of labour force engagement.
  - Currently, proportionately fewer mature aged women participate in the labour force than either mature aged men in Australia or mature aged women in similar OECD countries. However, the gaps in participation have narrowed considerably over the past three decades.
  - Most mature aged women who are not in the labour force appear to prefer not to work.
  - Around 7 per cent of mature aged women could potentially be induced to enter the labour force. However, the barriers or obstacles to participation of many in this group are significant and difficult to address.
  - Almost one quarter of mature aged women working part time want to increase their hours of work. However, one half of women working full time want to work less hours. If all mature aged women were to work the hours they preferred, the net effect would be a fall in total hours worked of nearly 11 per cent.
  - As in most OECD countries, women retire earlier than men, although the gap is narrowing.
    - The decision to retire is influenced mainly by considerations of financial security and health/physical ability.
  - Over the next couple of decades, the contribution of mature aged women to total hours worked will continue to rise steadily. However, the potential for additional growth in participation and average hours worked for the current cohort of mature aged women appears limited.

**Table F.1 Speeches and presentations by the Chairman, Commissioners and staff, 2010-11**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks, Chairman:</b>		
Centre for Independent Studies, Consilium, Cooloom	Sustainable population policy	July 2010
ANU Crawford School, Canberra	The Commission's Bilateral and Regional Trade Agreements study	Aug 2010
Economic Society of Australia 'Emerging Economists' seminar, Reserve Bank Australia, Sydney	Successful reform	Aug 2010
OECD, Paris	The Productivity Commission and Regulatory Reform in Australia	Sept 2011
ABS NATSTATS Conference, Sydney	The media and statistics	Sept 2010
New Zealand Parliament Select Committee on the New Zealand Productivity Commission Bill, New Zealand	Australia's Productivity Commission and implications for New Zealand	Sept 2010
World Trade Organisation, Geneva	The Commission and Trade Reform in Australia	Sept 2010
International CEO Forum, Sydney	The Commission's role and activities and the inquiry into Executive Remuneration in Australia	Sept 2010
Rotary Club of Canberra	Executive Remuneration: how much is too much?	Sept 2010
WA Department of Treasury and Finance Strategic Policy Quarterly Forum, Perth	Successful reform: Some lessons	Oct 2010
OECD Regulatory policy at the Crossroads – towards a new policy agenda, Paris	Address to final plenary session	Oct 2010
Department of Transport and Infrastructure, Canberra	Structural Reform Challenges	Oct 2010
Forum of Federations/Productivity Commission Benchmarking Roundtable, Melbourne	Benchmarking and the Report of Government Services	Oct 2010
Monash University Faculty of Business & Commerce, Melbourne	An address to international graduates	Dec 2010
Australian National University and the University of Chicago, Advancing Child and Family Policy through Research, Canberra	Opening address	Jan 2011
New Zealand Business Roundtable Retreat, Formosa New Zealand	Lifting productivity: lessons from Australia	Feb 2011

Melbourne Business School Public Policy Program, Melbourne	Industry Policy's Evolution	Feb 2011
Centre for Corporate Public Affairs 2011 Politics and Public Policy Review, Canberra	The Commission's role and activities; reform priorities and the agenda for policy debate	March 2011
SA Centre for Economic Studies, Adelaide	Evidence and public policy: the case of Gambling	March 2011
BCA/AIGN Carbon Pricing Forum, Canberra	Comparing carbon prices internationally: 'the challenge'	March 2011
Korea Development Institute, Korea	Independent Research Institutions and Public Policy: an Australian Perspective	April 2011
Gaming and Casino Regulators Conference	Gambling Policy and Evidence	April 2011
Attorney General's Civil Justice Symposium, Canberra	An empirical base: who needs it?	May 2011
Federal Competition Commission Seminar, Mexico	Infrastructure regulation and reform in Australia	June 2011
Mexico-Australia Regulatory Cooperation Workshop	Reforming regulation — Australia's approach	June 2011
Mexican Export Council, Mexico City	Best practices in structure reform	June 2011
Australian Embassy and OECD Regional Office, Mexico City — Roundtable	Australia's experience in competition reform	June 2011
Universidad del Pacifico, Seminar, Lima, Peru	Microeconomic reform in Australia and the role of the Productivity Commission	June 2011
Centre of Public Studies, Public Forum, Santiago, Chile	Structural reform in Australia	June 2011
Ministry of the Secretary General of the Presidency, Chile, Roundtable	The role of the Commission in Australia	June 2011
Economic & Social Outlook Conference, Melbourne	Australia's Mining Boom: What's the problem?	June 2011
<b>Commissioners:</b>		
University of South Australia, Sustainable Irrigation by Henning Bjornlund, Adelaide (Wendy Craik)	Commission's inquiry into Australian Urban Water draft report	July 2010
Monash Leadership Forum, Melbourne (Wendy Craik)	About her leadership/career	July 2010
5 <sup>th</sup> Australasian Better Boards Conference, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	July 2010

(Continued on next page)

**Table F.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Tasmania Department of Premier & Cabinet Leadership Group, Hobart (Robert Fitzgerald)	Economics and Public Policy	July 2010
NSW Council of Social Services 75 <sup>th</sup> Anniversary Conference, Sydney (Robert Fitzgerald)	Keynote address on relationship between Government and NGO sector	Aug 2010
New Zealand Retirement Commission Conference (Louise Sylvan)	Behavioural Economics as it relates to financial management	Aug 2010
Cross-jurisdictional Food Safety Regulation Conference, Melbourne (David Kalisch)	Commission's study into Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety,	Sept 2010
Australian Charity Laws Association Conference, Sydney (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Sept 2010
LGSA Water Management Conference 2010, Orange (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	Sept 2010
Economic Society of Australia Seminar, Brisbane (David Kalisch)	Commission's study into Public and Private Hospitals	Sept 2010
Water Pricing Conference, Melbourne (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	Sept 2010
NSW COP State Conference, Sydney (Robert Fitzgerald)	Keynote address on relationship between Government and NGO sector	Sept 2010
Transport Accident Commission Personal Injury Education Foundation, Melbourne (Patricia Scott)	Commission's inquiry into Disability Care and Support	Oct 2010
Launch of Australian Scholarships Foundation and Origin Energy, Sydney (Robert Fitzgerald)	Educational needs of the not for profit sector	Oct 2010
International Conference on Public Administration, Canberra (Mike Woods)	Australian experience in serving citizens in a globalised world	Oct 2010
Volunteering Australia 13 <sup>th</sup> National Conference, Melbourne (Robert Fitzgerald)	Margaret Bell, Spirit of Volunteering Oration	Oct 2010
Aged Care Association Australia 29 <sup>th</sup> Annual Congress, Adelaide (Mike Woods)	It's the economy stupid – the changing structure of aged care	Nov 2010
Leaders of the Salvation Army in the Australian Southern Territory, Melbourne (Robert Fitzgerald)	Celebrating opportunities – meeting the challenges facing faith-based organisations in the third sector	Feb 2011
Australian Association of Gerontology Forum, Melbourne (Sue Macri)	Commission's inquiry into Caring for Older Australians	Feb 2011

Guild Accountants and ACSA NSW & ACT Forum, Sydney (Sue Macri)	Commission's inquiry into Caring for Older Australians	Feb 2011
Future Housing for Older Australian Conference, Benevolent Society, Sydney (Sue Macri)	Commission's inquiry into Caring for Older Australians	Feb 2011
Annual Water Symposium 2011, LegalWise Seminars, Sydney (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	Feb 2011
Aged and Community Services SA&NT Inc Finance Forum, Sydney (Robert Fitzgerald)	Commission's inquiry into Caring for Older Australians	Feb 2011
ACSA/ACCV Tristate Conference, Albury (Sue Macri and Paul Lindwall)	Commission's inquiry into Caring for Older Australians	March 2011
ABARE Outlook 2011 conference, Canberra (Patricia Scott)	Food security and trade	March 2011
Australian Anglican Bishops' Conference, Newcastle (Robert Fitzgerald)	Not for profit – new framework for the community sector, including churches, in relating to government	March 2011
Alzheimers Australian (NSW) Forum, Sydney (Robert Fitzgerald & Sue Macri)	Commission's inquiry into Caring for Older Australians	March 2011
Carers NSW 2011 Biennial Conference, Sydney (Robert Fitzgerald & John Walsh)	Commission's inquiries into Caring for Older Australians and the Disability Care and Support	March 2011
Simavita Forum, Sydney (Sue Macri)	Commission's inquiry into Caring for Older Australians	April 2011
RSL Care Qld Defence Forum, Gold Coast (Sue Macri)	Commission's inquiry into Caring for Older Australians	April 2011
St Laurence Community Services Social Inclusion seminar, Melbourne (Alison McClelland)	Key note address – Working together to promote social inclusion	April 2011
College of Nursing Professional Evening (Sydney (Sue Macri)	Commission's inquiry into Caring for Older Australians	April 2011
Wollongong University Forum, Wollongong (Sue Macri)	Commission's inquiry into Caring for Older Australians	April 2011
Queensland University of Technology's Fundraising Regulation Conference, Brisbane (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	April 2011
National Disability and Carer Congress, Melbourne (Patricia Scott)	Commission's inquiry into Disability Care and Support	May 2011
NSW HACC & Community Care Conference, Sydney (Mike Woods)	Commission's inquiry into Caring for Older Australians	May 2011

(Continued on next page)

**Table F.1 (continued)**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Water Services Association of Australia OzWater 2011 Conference, Sydney (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	May 2011
ACSA-WA/Alzheimers Australia Conference, Perth (Sue Macri)	Commission's inquiry into Caring for Older Australians	May 2011
Executive Learning Groups, Canberra (Patricia Scott)	Commission's inquiry into Disability Care and Support	May 2011
CEDA Water Forum, Adelaide, (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	May 2011
Infrastructure Partnerships Australia Water Taskforce, Brisbane (Wendy Craik)	Commission's inquiry into Australian Urban Water Sector	May 2011
ACAA-NSW Congress, Sydney (Mike Woods)	Commission's inquiry into Caring for Older Australians	May 2011
Victorian Law Society CPD Forum, Melbourne (Sue Macri)	Commission's inquiry into Caring for Older Australians	May 2011
Australia-Israel Chamber of Commerce CEO Luncheon, Sydney (Louise Sylvan)	Commission's study into Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments	June 2011
Royal Brisbane & Women's Hospital, Hospital in the Home Conference, Brisbane (Sue Macri)	Commission's inquiry into Caring for Older Australians	June 2011
<b>Staff:</b>		
ABARE Research Group Water Symposium, Sydney (John Salerian)	Commission's staff working paper on Developing a Partial Equilibrium Model of an Urban Water System	Sept 2010
Department of Innovation, Industry and Regional Development Trade Policy Forum, Melbourne (Tom Nakivell)	Commission's inquiry into Bilateral and regional trade agreements	Oct 2010
ABS Innovation Reference Group, Canberra (Leo Soames)	Competition innovation and productivity in Australian businesses: a firm level econometric analysis	Oct 2010
Australasian Treasury Officers Conference, Perth (Terry O'Brien)	Commission's roundtable proceeding on Strengthening Evidence-based Policy in the Australian Federation	Oct 2010
Qld Department of Employment and Innovation seminar series, Brisbane (Terry O'Brien)	Commission's roundtable proceeding on Strengthening Evidence-based Policy in the Australian Federation	Oct 2010
OECD Risk Management in Agriculture workshop, Paris (Alan Johnston)	The Commission's role and activities and drought policy in Australia: how to improve it.	Nov 2010

University of NSW Australian Business School Economic measurement group workshop, Sydney (Don Brunker)	Competition innovation and productivity in Australian businesses: a firm level econometric analysis	Dec 2010
Australian Agricultural & Resource Economics Society 55 <sup>th</sup> Annual Conference, Melbourne (Jacqueline Crowle)	Commission's staff working paper on Childhood Obesity: an economic perspective	Feb 2011
OECD and the Ministry of Finance Regulatory Reform of Indonesia, Jakarta (Les Andrews)	Australian reform agenda; Commission's role in regulatory reform and the Commission's studies in Regulation stocktake and Regulation benchmarking	Feb 2011
Australian Institute of Criminology, Young People, Risk and Resilience, Melbourne (Prue Holzer)	Developing a performance indicator framework for juvenile justice services; progress and future directions	March 2011
University of Melbourne, TAFE Development Centre, Melbourne (Lou Will)	Commission's study in Vocational Education and Training Workforce	March 2011
UnitingCare Community Options Forum, Melbourne (Dominique Lowe)	Commission's inquiry into Disability Care and Support	March 2011
National Disability Insurance Scheme Forum, Melbourne (Hudan Nuch)	Commission's inquiry into Disability Care and Support	March 2011
Aged Care Queensland Conference, Gold Coast (Paul Lindwall)	Commission's inquiry into Caring for Older Australians	March 2011
Department of Health & Ageing National HACC Conference, Brisbane (Paul Lindwall)	Commission's inquiry into Caring for Older Australians	April 2011
ABS Macroeconomics and Integration Group Seminar Series, Canberra (Leo Soames)	Competition, Innovation and Productivity in Australian Business	April 2011
IPAA National Roundtable on Sustainable Population Policy, Canberra (Lisa Gropp)	Progressing and implementing a sustainable population policy: policy challenges	April 2011
Second Australasian Workshop on Econometrics and Health, Gold Coast (Lucy Bechte)	Inequality and Mental Health in Australia	April 2011

**Table F.2 International delegations and visitors, 2010-11**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
South African Delegation	The Commission's Inquiry into Gambling	July 2010 (C)
IMF Article IV Consultation Group	The Commission's role and activities	July 2010 (C)
Singapore delegation	The Commission's role and activities	July 2010 (C)
Professor Joseph Stiglitz, University of Columbia	The Commission's role and activities	July 2010 (M)
Pedro Pablo Diaz, Chilean Ambassador and Silvana Gattini, Chilean Trade Commission	The Commission's role and activities	Aug 2010 (C)
Aart de Geus, Deputy Secretary-General of the OECD; Paul Myler, Assistant General G20 and International Economy, Department of Foreign Affairs & Trade and Patrick Blake, OECT designate	Discussion of the OECD's work on human capital, including the skills strategy, education, workforce participation and gender issues	Aug 2010 (C)
John Woods, Australian Ambassador (Designate) to Peru	Pre-posting consultations	Aug 2010 (M)
Melanie Aitken, Commissioner, Canadian Competition Bureau	The Commission's role and activities	Aug 2010 (C)
New Zealand delegation	The Commission's Inquiry into Disability	Aug 2010 (C)
The Hon. Simon Power, NZ Minister for Finance; Iain Southall and Bryan Chapple, Ministry of Economic Development	The Commission's role and activities	Sep 2010 (M)
Hon. Rodney Hide, NZ Minister for Regulation Reform	The Commission's role and activities	Oct 2010 (M)
Malaysian Productivity Corporation	The Commission's role and activities	Oct 2010 (C)
Democratic Republic of China Delegation	The Commission's role and activities	Oct 2010 (M)
Christine McDaniel, Chief Economist, US International Trade Commission	Seminar to the Commission on US-China safeguards case on tyres	Oct 2010 (C)
Iraqi Ministry of Finance Delegation	The Commission's role and activities	Nov 2010 (C)
Jitinder Kohli, Centre for American Progress	Discussion of the Commission's work relating to improving the efficiency of government and Australia's productivity performance	Nov 2010 (C)

Ambassador Richard Boucher, Deputy Secretary General of the OECD	The Commission's role and activities. Roundtable discussion	Nov 2010 (C)
Iraqi Delegation	The Commission's role and activities; trade and economic reform in Australia	Nov 2010 (M)
Simon Upton, Head of the Environment Directorate, OECD	The Commission's role and activities	Nov 2010 (C)
China Ministry of Finance Delegation	The Commission's role and activities and productivity matters	Nov 2010 (C)
Her Excellency Dr Mari Elka Pangestu, Minister for Trade for the Republic of Indonesia	Richard Snape Lecture	Nov 2010 (C)
World Trade Organisation delegation	Trade Policy	Nov 2010 (C)
Chinese State Council Delegation	The Commission's role and activities	Nov 2010 (C)
Dr Isher Judge Ahluwalia, Chair for the Indian Council for Research on International Economic Relations and the Chair of High Powered Expert Committee on Urban Infrastructure	The Commission's role and activities	Nov 2010 (C)
Mr Rizal Lukman, Indonesian Coordinating Ministry for the Economy	The Commission's role and activities	Dec 2010 (C)
Ms Virginia Grenville, the Australian Ambassador to Chile	The Commission's role and activities	Dec 2010 (M)
Royal Government of Bhutan Delegation	Discussion of Regulatory Impact Assessment (RIA) processes and framework	Dec 2010 (C)
Indonesian Delegation	The Commission's role and activities and how it provides analysis and advice	Mar 2011 (C)
Murray Sherwin, Chairman New Zealand Productivity Commission	The Commission's role and activities	Mar 2011 (C)
His Excellency Professor Dr Boediono, Vice President in the Republic of Indonesia	The Commission's role and activities	Mar 2011 (C)
Singapore Ministry of Trade and Industry	The Commission's role and activities	Mar 2011 (C)

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**Table F.2 (continued)**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
Mr Louis Lévesque, Canada's Deputy Minister of International Trade; Michael Small, High Commissioner for Canada; Robert Coleman, Counsellor (Commercial) & Senior Trade Commissioner, Canadian High Commission, Canberra; Elaine Brouca, Deputy Director, Office of the Deputy Minister of International Trade and Jodi Robinson, Deputy Director – Trade Negotiations II division, DFAIT.	The Commission's role and activities	Mar 2011 (C)
Andrew Jackson, Deputy Secretary, Competition, Trade and Investment Branch and Dr Peter Mumford, Director, Organisational Development and Support Branch, NZ Ministry of Economic Development	Methods for assessing the benefits of regulatory reform in regional context	Mar 2011 (C)
Mr David Cayill, NZ ETS Review 2011 Panel Chair and Alex Smithyman, Second Secretary, New Zealand High Commission	The Commission's role and activities	Apr 2011 (C)
Dr Rafael Fernandez de Casto	Precursor meeting to the Chairman's forthcoming visit to Mexico (June)	Apr 2011 (C)
Lynne Dovey, NZ Ministry of Economic Development and Grant Bryden, NZ Ministry of Finance and Treasury	Discussion of Australian/New Zealand relations	May 2011 (C)
Peter Alsop, NZ Productivity Commission	The Commission's role and activities	June 2011 (C)
Brunei Centre for Strategic and Policy Studies	The Commission's role and activities	June 2011 (C)

(C) Canberra (M) Melbourne

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## G Publications

This appendix provides a list of Commission inquiry and research reports, Commission research papers and major speeches by the Chairman in 2010-11. 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.

- *Rural Research and Development Corporations*, Draft Report, 23 September 2010
- *Education and Training Workforce: Vocational education and training (VET)*, Research Draft Report, 30 November 2010
- *Caring for Older Australians*, Draft Report, 21 January 2011
- *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Research Draft Report, 25 February 2011
- *Disability Care and Support*, Draft Report, 28 February 2011
- *Australia's Urban Water Sector*, Draft Report, 13 April 2011
- *Education and Training Workforce: Early Childhood Development*, Draft Research Report, 30 June 2011

#### Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, CanPrint Communications and the

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Commission's website. The dates listed are signing dates. Publications marked with an asterisk (\*) are yet to be released.

- *Wheat Export Marketing Arrangements*, Final Inquiry Report No. 51, 1 July 2010
- *Annual Review of Regulatory Burdens on Business – Business and Consumer Services*, Research Report, 31 August 2010
- *Bilateral and Regional Trade Agreement*, Research Report, 27 November 2010
- *Impacts and Benefits of COAG reforms: reporting framework*, Research Report, 23 December 2010
- *Education and Training Workforce: Vocational Education and Training*, Research Report, 21 April 2011
- *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Research Report, 29 April 2011
- *Rural Research and Development Corporations*, Final Inquiry Report No. 52, 10 February 2011
- *Carbon Emission Policies in Key Economics*, Research Report, 31 May 2011

## **Performance reporting**

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

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent CanPrint Communications and from the Commission's website. Publications produced in 2010-11 and many Secretariat reports from previous years are also available on compact disk.

- *Report on Government Services 2011*, Volume 1: Early Childhood, Education and Training, Justice, Emergency Management (January 2011)
- *Report on Government Services 2011*, Volume 2: Health, Community Services, Housing and Homelessness (January 2011)
- *Report on Government Service 2011: Indigenous Compendium* (April 2011)

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## Competitive neutrality complaints

No competitive neutrality complaints reports were published in 2010-11. 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 CanPrint Communications, and from the Commission's website. Requests for printed copies of publications marked with an asterisk (\*) should be directed to the Commission.

### Annual Reports

- *Annual Report 2009-10* (October 2010)
- *Trade & Assistance Review 2009-10* (June 2011)

### Commission research paper

- *Population and Migration: Understanding the Numbers* (December 2010)

### Submissions

- *Productivity Commission Submission to the Taskforce on the Sustainable population Strategy for Australia* (May 2011)
- *Productivity Commission Submission to the Rural Research and Development Council* (February 2011)

### Chairman's speeches

Copies of the following speeches by Gary Banks are available from the Commission's website.

- *Successful reform: past lessons, future challenges* (December 2010)
- *Comparing Carbon Policies Internationally: the 'challenges'* (March 2011)
- *Evidence and Social Policy: the case of gambling* (April 2011)
- *Australia's Mining Boom: what's the problem?* (June 2011)

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## Richard Snape Lecture

The eighth Richard Snape Lecture was held on 22 November 2010. The lecture is available on the Commission's website.

- *The Challenge for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective*, Her Excellency Dr Mari Elka Pangestu (November 2010)

## Conference/roundtable proceedings

Papers contained within these proceedings reflect the views of the authors and do not necessarily those of the Commission. Copies of the proceedings are available from the Commission's publications agent CanPrint Communications, and from the Commission's website.

- *'Sustainable' Population? - Key Policy Issues* (March 2011)

## 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.

- *Investments in Intangible Assets and Australia's Productivity Growth: Sectoral Estimates* (October 2010)
- *Links Between Literacy and Numeracy Skills and Labour Market Outcomes* (October 2010)
- *Childhood Obesity: An Economic Perspective* (October 2010)
- *Labour Force Participation of Women Over 45* (January 2011)

## Other publications

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

- *PC Update*, a newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 46, February 2010; Issue 47, May 2010; Issue 48, September 2010; Issue 49, May 2011)

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# H Financial Statements

**This appendix presents the audited financial statements for the Productivity Commission for 2010-11.**

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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Assistant Treasurer**

I have audited the accompanying financial statements of the Productivity Commission for the year ended 30 June 2011, which comprise: a Statement by the Chairman and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Asset Additions and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

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

The Chairman of the Productivity Commission's is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as the Chairman determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Productivity Commission's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the Productivity Commission's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chairman of the Productivity Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Independence***

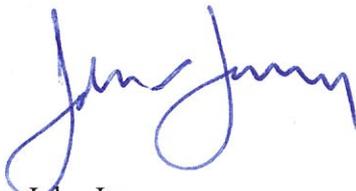
In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

### ***Opinion***

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

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Productivity Commission's financial position as at 30 June 2011 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office



John Jones

Executive Director

Delegate of the Auditor-General

Canberra

Date: 25 August 2011



**Australian Government**  
**Productivity Commission**

GPO Box 1428  
Canberra City ACT 2601  
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Facsimile 02 6240 3300  
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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 2011 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.

A handwritten signature in blue ink, appearing to read 'G. Banks'.

Gary Banks  
Chairman

24 August 2011

A handwritten signature in blue ink, appearing to read 'B. Scammell'.

Brian Scammell  
Chief Finance Officer

24 August 2011

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## Statement of Comprehensive Income

for the period ended 30 June 2011

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		2011	2010
	Notes	\$'000	\$'000
<b>EXPENSES</b>			
Employee benefits	3A	<b>26,748</b>	24,839
Supplier expenses	3B	<b>9,437</b>	7,440
Depreciation and amortisation	3C	<b>997</b>	1,033
Finance costs	3D	<b>34</b>	31
Losses from asset sales	3E	<b>64</b>	7
<b>Total Expenses</b>		<b><u>37,280</u></b>	<b><u>33,350</u></b>
<b>LESS:</b>			
<b>OWN-SOURCE INCOME</b>			
<i>Own-source revenue</i>			
Sale of goods and rendering of services	4A	<b><u>272</u></b>	<u>250</u>
<b>Total own-source revenue</b>		<b><u>272</u></b>	<u>250</u>
<i>Gains</i>			
Other gains	4B	<b><u>36</u></b>	<u>35</u>
<b>Total gains</b>		<b><u>36</u></b>	<u>35</u>
<b>Total own-source income</b>		<b><u>308</u></b>	<u>285</u>
<b>Net cost of services</b>		<b><u>36,972</u></b>	<b><u>33,065</u></b>
Revenue from Government	4C	<b><u>37,279</u></b>	<u>34,388</u>
<b>Surplus</b>		<b><u>307</u></b>	<u>1,323</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Changes in asset revaluation reserves	5A	<b><u>-</u></b>	<u>429</u>
<b>Total comprehensive income</b>		<b><u>307</u></b>	<u>1,752</u>

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

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## Balance Sheet

as at 30 June 2011

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		2011	2010
	Notes	\$'000	\$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	6A	387	415
Trade and other receivables	6B	<u>15,873</u>	<u>9,901</u>
<b>Total financial assets</b>		<b><u>16,260</u></b>	<b><u>10,316</u></b>
<b>Non-Financial Assets</b>			
Leasehold improvements	7A	5,714	2,972
Property, plant and equipment	7B, D	726	666
Intangibles	7C, D	87	101
Other	7E	<u>555</u>	<u>522</u>
<b>Total non-financial assets</b>		<b><u>7,082</u></b>	<b><u>4,261</u></b>
<b>Total Assets</b>		<b><u>23,342</u></b>	<b><u>14,577</u></b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	8A	585	371
Other	8B	<u>3,527</u>	<u>439</u>
<b>Total payables</b>		<b><u>4,112</u></b>	<b><u>810</u></b>
<b>Provisions</b>			
Employee provisions	9A	10,180	9,017
Other provisions	9B	<u>386</u>	<u>538</u>
<b>Total provisions</b>		<b><u>10,566</u></b>	<b><u>9,555</u></b>
<b>Total Liabilities</b>		<b><u>14,678</u></b>	<b><u>10,365</u></b>
<b>Net Assets</b>		<b><u>8,664</u></b>	<b><u>4,212</u></b>
<b>EQUITY</b>			
Contributed equity		1,804	(2,341)
Reserves		2,154	2,154
Retained earnings		<u>4,706</u>	<u>4,399</u>
<b>Total Equity</b>		<b><u>8,664</u></b>	<b><u>4,212</u></b>

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

## Statement of Changes in Equity

for the period ending 30 June 2011

<i>Item</i>	<i>Retained earnings</i>		<i>Asset revaluation reserve</i>		<i>Contributed equity</i>		<i>Total equity</i>	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance</b>								
Balance carried forward from previous period	4,399	3,076	2,154	1,725	(2,341)	2,858	4,212	7,659
Adjustment for changes in accounting policies	-	-	-	-	-	-	-	-
<b>Adjusted opening balance</b>	<b>4,399</b>	<b>3,076</b>	<b>2,154</b>	<b>1,725</b>	<b>(2,341)</b>	<b>2,858</b>	<b>4,212</b>	<b>7,659</b>
<b>Comprehensive Income</b>								
Other comprehensive income	-	-	-	429	-	-	-	429
Surplus for the period	307	1,323	-	-	-	-	307	1,323
<b>Total comprehensive income</b>	<b>307</b>	<b>1,323</b>	<b>-</b>	<b>429</b>	<b>-</b>	<b>-</b>	<b>307</b>	<b>1,752</b>
<b>Transactions with owners</b>								
<b>Distributions to Owners</b>								
Other – net cash appropriations	-	-	-	-	-	(5,199)	-	(5,199)
<b>Contributions by Owners</b>								
Departmental capital budget	-	-	-	-	4,145	-	4,145	-
<b>Sub-total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,145</b>	<b>(5,199)</b>	<b>4,145</b>	<b>(5,199)</b>
<b>Closing balance as at 30 June</b>	<b>4,706</b>	<b>4,399</b>	<b>2,154</b>	<b>2,154</b>	<b>1,804</b>	<b>(2,341)</b>	<b>8,664</b>	<b>4,212</b>

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

## Cash Flow Statement

for the period ended 30 June 2011

		2011	2010
	Notes	\$'000	\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		35,037	31,488
Goods and services		598	789
Net GST received		<u>663</u>	<u>716</u>
<b>Total cash received</b>		<b><u>36,298</u></b>	<b><u>32,993</u></b>
<b>Cash used</b>			
Employees		25,464	23,915
Suppliers		9,850	8,266
Other		<u>2,641</u>	<u>515</u>
<b>Total cash used</b>		<b><u>37,955</u></b>	<b><u>32,696</u></b>
<b>Net cash from (used by) operating activities</b>	10	<b><u>(1,657)</u></b>	<b><u>297</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of property, plant and equipment		<u>5</u>	<u>—</u>
<b>Total cash received</b>		<b><u>5</u></b>	<b><u>—</u></b>
<b>Cash Used</b>			
Purchase of property, plant and equipment		3,464	106
Other		<u>570</u>	<u>—</u>
<b>Total cash used</b>		<b><u>4,034</u></b>	<b><u>106</u></b>
<b>Net cash (used by) investing activities</b>		<b><u>(4,029)</u></b>	<b><u>(106)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Contributed equity		3,404	—
Other		<u>2,254</u>	<u>—</u>
<b>Total cash received</b>		<b><u>5,658</u></b>	<b><u>—</u></b>
<b>Net cash from financing activities</b>		<b><u>5,658</u></b>	<b><u>—</u></b>
<b>Net increase (decrease) in cash held</b>		<b>(28)</b>	<b>191</b>
Cash and cash equivalents at the beginning of the reporting period		<u>415</u>	<u>224</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	6A	<b><u>387</u></b>	<b><u>415</u></b>

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

## Schedule of Commitments

as at 30 June 2011

	2011	2010
	\$'000	\$'000
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
GST recoverable on commitments	<u>(2,632)</u>	<u>(1,256)</u>
<b>Total commitments receivable</b>	<u>(2,632)</u>	<u>(1,256)</u>
<b>Commitments payable</b>		
<b>Other commitments</b>		
Operating leases <sup>1</sup>	28,502	13,105
Other commitments <sup>2</sup>	<u>450</u>	<u>707</u>
<b>Total other commitments</b>	<u>28,952</u>	<u>13,812</u>
<b>Net commitments by type</b>	<u>26,320</u>	<u>12,556</u>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Other commitments receivable</b>		
One year or less	(312)	(310)
From one to five years	(1,281)	(633)
Over five years	<u>(1,039)</u>	<u>(313)</u>
<b>Total other commitments receivable</b>	<u>(2,632)</u>	<u>(1,256)</u>
<b>Commitments payable</b>		
<b>Operating lease commitments</b>		
One year or less	3,099	2,867
From one to five years	13,973	6,799
Over five years	<u>11,430</u>	<u>3,439</u>
<b>Total operating lease commitments</b>	<u>28,502</u>	<u>13,105</u>
<b>Other commitments</b>		
One year or less	335	539
From one to five years	115	168
Over five years	<u>—</u>	<u>—</u>
<b>Total other commitments</b>	<u>450</u>	<u>707</u>
<b>Net commitments by maturity</b>	<u>26,320</u>	<u>12,556</u>

Note: Commitments are GST inclusive where relevant.

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

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

Lease payments are subject to a fixed percentage annual increase in accordance with the lease agreement. In Melbourne, the current lease expires on 31 May 2021, with a five year option. In Canberra the current lease expires on 30 April 2017, with a five year option.

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

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

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

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

## Schedule of Asset Additions

for the period ending 30 June 2011

The following non-financial non-current assets were added in 2010-11:

	<i>Leasehold improvements</i>	<i>Property, plant &amp; equipment</i>	<i>Intangibles</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>Additions funded in the current year</b>				
By purchase – appropriation ordinary annual services				
Departmental capital budget	3,097	289	18	3,404
Ordinary operating costs	–	60	–	60
<b>Total additions funded in the current year</b>	<b>3,097</b>	<b>349</b>	<b>18</b>	<b>3,464</b>
<b>Additions recognised in 2010-11 – to be funded in future years</b>				
Make-good	384	–	–	384
<b>Total future years/unfunded additions</b>	<b>384</b>	<b>–</b>	<b>–</b>	<b>384</b>
<b>Total additions</b>	<b>3,481</b>	<b>349</b>	<b>18</b>	<b>3,848</b>

The following non-financial non-current assets were added in 2009-10:

	<i>Leasehold improvements</i>	<i>Property, plant &amp; equipment</i>	<i>Intangibles</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>Additions funded in the current year</b>				
By purchase – appropriation ordinary annual services				
Ordinary operating costs	–	77	29	106
<b>Total additions</b>	<b>–</b>	<b>77</b>	<b>29</b>	<b>106</b>

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

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## Notes to and forming part of the Financial Statements

<b>Note</b>	<b>Description</b>
1	Summary of Significant Accounting Policies
2	Events after the Reporting Period
3	Expenses
4	Income
5	Other Comprehensive Income
6	Financial Assets
7	Non-Financial Assets
8	Payables
9	Provisions
10	Cash Flow Reconciliation
11	Contingent Liabilities and Assets
12	Senior Executive Remuneration
13	Remuneration of Auditors
14	Financial Instruments
15	Appropriations
16	Special Accounts
17	Compensation and Debt Relief
18	Reporting of Outcomes
19	Comprehensive Income (Loss) Attributable to the Entity

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

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

The Productivity Commission (the Commission) is an Australian Government controlled entity. The Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. The Commission's work extends to the public and private sectors, including areas of State, Territory and local government, as well as federal responsibility.

The Commission is structured to meet one outcome:

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

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

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

### **1.2 Basis of Preparation of the Financial Statements**

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

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2010; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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The financial statements are 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 Commission or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments.

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

### **1.3 Significant Accounting Judgements and Estimates**

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

- The fair value of leasehold improvements has been taken to be the fair value of similar leasehold improvements as determined by an independent valuer.

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

### **1.4 New Australian Accounting Standards**

#### ***Adoption of New Australian Accounting Standard Requirements***

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

New standards, amendments to standards or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a financial impact, and are not expected to have a future financial impact on the Commission.

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### Future Australian Accounting Standard Requirements

New standards, amendments to standards or interpretations that were issued by the Australian Accounting Standards Board prior to the sign-off date and are applicable for future reporting periods are not expected to have a future financial impact on the Commission.

## **1.5 Revenue**

### Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the Commission gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

### 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 Commission retains no managerial involvement or 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 Commission.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- 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 Commission.

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The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of reporting period. Allowances are made when collectability of the debt is no longer probable.

### Parental Leave Payments Scheme

Amounts received under the Parental Leave Payments Scheme by the Commission not yet paid to employees would be presented gross as cash and a liability (payable). There were no amounts received under this scheme in 2010-11.

## **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.

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

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7).

### Sale of Assets

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

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## 1.7 Transactions with the Government as Owner

### Equity Injections

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

### Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

### Other Distributions to Owners

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

## 1.8 Employee Benefits

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

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

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

### Leave

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

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

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

### Separation and redundancy

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 2011 (2010: Nil).

### Superannuation

The majority of the staff of the Commission are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

The Commission makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The Commission accounts for the contributions as if they were contributions to defined contribution plans.

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

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## **1.9 Leases**

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

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

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

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

## **1.10 Borrowing Costs**

All borrowing costs are expensed as incurred.

## **1.11 Cash**

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

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## 1.12 Financial Assets

The Commission classifies its financial assets in the following categories:

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

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

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

### Effective Interest Method

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

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

### Loans and receivables

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

### Impairment of financial assets

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

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

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allowance account. The loss is recognised in the Statement of Comprehensive Income.

### **1.13 Financial Liabilities**

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

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

#### **Other financial liabilities**

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

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

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

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

### **1.15 Acquisition of Assets**

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

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which

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they were recognised in the transferor's accounts immediately prior to the restructuring.

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

### Asset Recognition Threshold

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

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

### Revaluations

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

<i>Asset class</i>	<i>Fair value measured at</i>
Leasehold improvements	Depreciated replacement cost
Infrastructure, 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. Assets were revalued by the Australian Valuation Office (AVO) as at 30 June 2010.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in surplus/deficit. Revaluation decrements for a class of

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

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

### Depreciation

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

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2011	2010
Leasehold improvements and make-good	Lease term	Lease term
Plant and equipment	3 to 20 years	3 to 20 years
Intangibles (computer software)	5 years	5 years

### Impairment

All assets were assessed for impairment at 30 June 2011. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

### Derecognition

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

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## **1.17 Intangibles**

The Commission's intangibles comprise commercially purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Commission's software are 5 years (2009-10: 5 years).

All software assets were assessed for indications of impairment as at 30 June 2011.

## **1.18 Taxation**

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

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

## **Note 2: Events after the Reporting Period**

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.

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### Note 3: Expenses

#### Note 3A: Employee benefits

	2011	2010
	\$'000	\$'000
Wages and salaries	20,244	18,730
Superannuation:		
Defined contribution plans	857	624
Defined benefit plans	2,452	2,310
Leave and other entitlements	3,195	3,175
<b>Total employee benefits</b>	<b>26,748</b>	<b>24,839</b>

#### Note 3B: Suppliers

	2011	2010
	\$'000	\$'000
<b>Goods and Services</b>		
Consultants	33	45
Contractors	3,801	2,747
Travel	1,342	1,254
IT services	671	660
<b>Total goods and services</b>	<b>5,847</b>	<b>4,706</b>
Goods and services are made up of:		
Provision of goods – external parties	242	226
Rendering of services – related entities	491	363
Rendering of services – external parties	5,114	4,117
<b>Total goods and services</b>	<b>5,847</b>	<b>4,706</b>
<b>Other supplier expenses</b>		
Operating lease rentals – external parties:		
Minimum lease payments	3,560	2,693
Workers compensation premiums	30	41
<b>Total other supplier expenses</b>	<b>3,590</b>	<b>2,734</b>
<b>Total supplier expenses</b>	<b>9,437</b>	<b>7,440</b>

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**Note 3C: Depreciation and Amortisation**

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	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation:		
Buildings - leasehold improvements	<b>739</b>	668
Property, plant and equipment	<u><b>226</b></u>	<u>338</u>
<b>Total depreciation</b>	<u><b>965</b></u>	<u>1,006</u>
Amortisation:		
Intangibles:		
Computer software	<u><b>32</b></u>	<u>27</u>
<b>Total amortisation</b>	<u><b>32</b></u>	<u>27</u>
<b>Total depreciation and amortisation</b>	<u><u><b>997</b></u></u>	<u><u>1,033</u></u>

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**Note 3D: Finance Costs**

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	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Unwinding of discount	<u><b>34</b></u>	<u>31</u>
<b>Total finance costs</b>	<u><u><b>34</b></u></u>	<u><u>31</u></u>

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**Note 3E: Losses from asset sales**

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	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Property, plant and equipment:		
Proceeds from sale	<b>(5)</b>	–
Carrying value of assets sold	<b>63</b>	6
Selling expense	<b>6</b>	–
Intangibles:		
Proceeds from sale	–	–
Carrying value of assets sold	–	1
Selling expense	<u>–</u>	<u>–</u>
<b>Total losses from asset sales</b>	<u><u><b>64</b></u></u>	<u><u>7</u></u>

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## Note 4: Income

### Revenue

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

	2011	2010
	\$'000	\$'000
Provision of goods – related entities	–	–
Provision of goods – external parties	14	24
Rendering of services – related entities	179	184
Rendering of services – external parties	<u>79</u>	<u>42</u>
<b>Total sales of goods and rendering of services</b>	<b><u>272</u></b>	<b><u>250</u></b>

### Gains

#### Note 4B: Other Gains

	2011	2010
	\$'000	\$'000
Resources received free of charge	<u>36</u>	<u>35</u>
<b>Total other gains</b>	<b><u>36</u></b>	<b><u>35</u></b>

### Revenue from Government

#### Note 4C: Revenue from Government

	2011	2010
	\$'000	\$'000
Appropriations:		
Departmental appropriations	<u>37,279</u>	<u>34,388</u>
<b>Total revenue from Government</b>	<b><u>37,279</u></b>	<b><u>34,388</u></b>

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## Note 5: Other Comprehensive Income

### Note 5A: Changes in asset revaluation reserves

	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
Buildings - leasehold improvement revaluation increment	-	449
Property, plant and equipment revaluation decrement	<u>-</u>	<u>(20)</u>
<b>Total other comprehensive income</b>	<b><u>-</u></b>	<b><u>429</u></b>

## Note 6: Financial assets

### Note 6A: Cash and Cash Equivalents

	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
Cash on hand or on deposit	<u>387</u>	<u>415</u>
<b>Total cash and cash equivalents</b>	<b><u>387</u></b>	<b><u>415</u></b>

*Note 6B: Trade and Other Receivables*

	<b>2011</b>	<b>2010</b>
	<b>'000</b>	<b>'000</b>
<b>Goods and Services:</b>		
Goods and services – related entities	<b>36</b>	–
Goods and services – external parties	<u><b>24</b></u>	<u>17</u>
<b>Total receivables for goods and services</b>	<u><b>60</b></u>	<u>17</u>
<b>Appropriations receivable:</b>		
For existing programs	<b>15,410</b>	<u>9,786</u>
<b>Total appropriations receivable</b>	<b>15,410</b>	<u>9,786</u>
<b>Other receivables:</b>		
GST receivable from the Australian Taxation Office	<b>400</b>	89
Other	<u><b>3</b></u>	<u>9</u>
<b>Total other receivables</b>	<u><b>403</b></u>	<u>98</u>
<b>Total trade and other receivables</b>	<u><b>15,873</b></u>	<u>9,901</u>
Receivables are expected to be recovered in:		
No more than 12 months	<b>15,873</b>	9,901
More than 12 months	<u>–</u>	<u>–</u>
<b>Total trade and other receivables</b>	<u><b>15,873</b></u>	<u>9,901</u>
Receivables are aged as follows:		
Not overdue	<b>15,389</b>	9,901
Overdue by:		
0 to 30 days	<b>437</b>	–
31 to 60 days	<b>4</b>	–
61 to 90 days	<b>3</b>	–
More than 90 days	<u><b>40</b></u>	<u>–</u>
<b>Total receivables</b>	<u><b>15,873</b></u>	<u>9,901</u>

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## Note 7: Non-Financial Assets

### Note 7A: Leasehold improvements

	2011	2010
	\$'000	\$'000
Leasehold improvements		
Fair value	6,116	2,972
Accumulated depreciation	<u>(402)</u>	<u>—</u>
<b>Total leasehold improvements</b>	<b><u>5,714</u></b>	<b><u>2,972</u></b>
<b>Total land and buildings</b>	<b><u>5,714</u></b>	<b><u>2,972</u></b>

No indicators of impairment were found for leasehold improvements.

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

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer from the Australian Valuation Office conducted the revaluations.

### Note 7B: Property, plant and equipment

	2011	2010
	\$'000	\$'000
Other property, plant and equipment		
Fair value	929	666
Accumulated depreciation	<u>(203)</u>	<u>—</u>
<b>Total other property, plant and equipment</b>	<b><u>726</u></b>	<b><u>666</u></b>
<b>Total property, plant and equipment</b>	<b><u>726</u></b>	<b><u>666</u></b>

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

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

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer from the Australian Valuation Office conducted the revaluations.

The revaluation increment for leasehold improvements and decrement for plant and equipment were credited and debited respectively to the asset revaluation reserve by asset class, and included in the equity section of the balance sheet; no increments or decrements were expensed. See Note 5A.

**Note 7C: Intangibles**

	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
Computer software		
Purchased	<b>562</b>	544
Accumulated amortisation	<u>(475)</u>	<u>(443)</u>
<b>Total intangibles</b>	<u><b>87</b></u>	<u>101</u>

No indicators of impairment were found for intangible assets.

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

**Note 7D: Analysis of property, plant and equipment, and intangibles**

**Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2010-11)**

	<i>Leasehold improvements</i>	<i>Property, plant &amp; equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2010</b>				
Gross book value	<b>2,972</b>	<b>666</b>	<b>544</b>	<b>4,182</b>
Accumulated depreciation / amortisation and impairment	<u>—</u>	<u>—</u>	<u>(443)</u>	<u>(443)</u>
<b>Net book value 1 July 2010</b>	<u><b>2,972</b></u>	<u><b>666</b></u>	<u><b>101</b></u>	<u><b>3,739</b></u>
Additions: *				
By purchase	<b>3,481</b>	<b>349</b>	<b>18</b>	<b>3,848</b>
Revaluations and impairments recognised in other comprehensive income	—	—	—	—
Depreciation / amortisation expense	<b>(739)</b>	<b>(226)</b>	<b>(32)</b>	<b>(997)</b>
Disposals:				
Other	<u>—</u>	<u>(63)</u>	<u>—</u>	<u>(63)</u>
<b>Net book value 30 June 2011</b>	<u><b>5,714</b></u>	<u><b>726</b></u>	<u><b>87</b></u>	<u><b>6,527</b></u>
<b>Net book value as of 30 June 2011 represented by:</b>				
Gross book value	<b>6,116</b>	<b>929</b>	<b>562</b>	<b>7,607</b>
Accumulated depreciation/amortisation and impairment	<u>(402)</u>	<u>(203)</u>	<u>(475)</u>	<u>(1,080)</u>
	<u><b>5,714</b></u>	<u><b>726</b></u>	<u><b>87</b></u>	<u><b>6,527</b></u>

\* Disaggregated additions information are disclosed in the Schedule of Asset Additions

*Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2009-10)*

	<i>Leasehold improvements</i>	<i>Property, plant and equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2009</b>				
Gross book value	4,797	1,762	524	7,083
Accumulated depreciation / amortisation and impairment	<u>(1,606)</u>	<u>(809)</u>	<u>(424)</u>	<u>(2,839)</u>
<b>Net book value 1 July 2009</b>	<u>3,191</u>	<u>953</u>	<u>100</u>	<u>4,244</u>
Additions: *				
By purchase	–	77	29	106
Revaluations and impairments recognised in other comprehensive income	449	(20)	–	429
Depreciation / amortisation expense	(668)	(338)	(27)	(1,033)
Disposals:				
Other	<u>–</u>	<u>(6)</u>	<u>(1)</u>	<u>(7)</u>
<b>Net book value 30 June 2010</b>	<u>2,972</u>	<u>666</u>	<u>101</u>	<u>3,739</u>
<b>Net book value as of 30 June 2010 represented by:</b>				
Gross book value	2,972	666	544	4,182
Accumulated depreciation/amortisation and impairment	<u>–</u>	<u>–</u>	<u>(443)</u>	<u>(443)</u>
	<u>2,972</u>	<u>666</u>	<u>101</u>	<u>3,739</u>

\* Disaggregated additions information are disclosed in the Schedule of Asset Additions

*Note 7E: Other non-financial assets*

	<b>2011</b>	2010
	\$'000	\$'000
Prepayments	<u>555</u>	<u>522</u>
<b>Total other non-financial assets</b>	<u>555</u>	<u>522</u>
Total other non-financial assets – are expected to be recovered in:		
No more than 12 months	555	522
More than 12 months	<u>–</u>	<u>–</u>
<b>Total other non-financial assets</b>	<u>555</u>	<u>522</u>

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

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## Note 8: Payables

### Note 8A: Suppliers

	2011	2010
	\$'000	\$'000
Trade creditors and accruals	<u>585</u>	<u>371</u>
<b>Total supplier payables</b>	<b><u>585</u></b>	<b><u>371</u></b>
Supplier payables expected to be settled within 12 months:		
Related entities	17	52
External parties	<u>568</u>	<u>319</u>
<b>Total supplier payables</b>	<b><u>585</u></b>	<b><u>371</u></b>

Settlement is usually made within 30 days.

### Note 8B: Other Payables

	2011	2010
	\$'000	\$'000
Salaries and wages	526	381
Superannuation	84	58
Prepayments received/unearned income	56	–
Rent (lease) payable	626	–
Lease incentive	<u>2,235</u>	<u>–</u>
<b>Total other payables</b>	<b><u>3,527</u></b>	<b><u>439</u></b>
Total other payables are expected to be settled in:		
No more than 12 months	891	439
More than 12 months	<u>2,636</u>	<u>439</u>
<b>Total other payables</b>	<b><u>3,527</u></b>	<b><u>439</u></b>

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## Note 9: Provisions

### Note 9A: Employee provisions

	2011	2010
	\$'000	\$'000
Leave	<u>10,180</u>	<u>9,017</u>
<b>Total employee provisions</b>	<u><b>10,180</b></u>	<u><b>9,017</b></u>
Employee provisions are expected to be settled in:		
No more than 12 months	2,716	2,543
More than 12 months	<u>7,464</u>	<u>6,474</u>
<b>Total employee provisions</b>	<u><b>10,180</b></u>	<u><b>9,017</b></u>

### Note 9B: Other provisions

	2011	2010
	\$'000	\$'000
Provision for restoration obligations	<u>386</u>	<u>538</u>
<b>Total other provisions</b>	<u><b>386</b></u>	<u><b>538</b></u>
Other provisions are expected to be settled in:		
No more than 12 months	–	538
More than 12 months	<u>386</u>	<u>–</u>
<b>Total other provisions</b>	<u><b>386</b></u>	<u><b>538</b></u>

	<b>Provision for restoration \$'000</b>
<b>Carrying amount 1 July 2010</b>	<b>538</b>
Additional provisions made	<b>384</b>
Amounts used	<b>(570)</b>
Unwinding of discount or change in discount rate	<u><b>34</b></u>
<b>Closing balance 2011</b>	<u><b>386</b></u>

The Commission currently has 1 agreement for the leasing of premises which has a provision requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made provision to reflect the present value of this obligation. (2009-10: 1 agreement)

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## Note 10: Cash Flow Reconciliation

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	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
<b>Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement</b>		
<b>Cash and Cash Equivalents as per:</b>		
Cash Flow Statement	<b>387</b>	415
Balance Sheet	<u><b>387</b></u>	<u>415</u>
<b>Difference</b>	<u><u><b>=</b></u></u>	<u><u><b>=</b></u></u>
<b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net cost of services	<b>(36,972)</b>	(33,065)
Add revenue from Government	<b>37,279</b>	34,388
<b>Adjustments for non-cash items</b>		
Depreciation / amortisation	<b>997</b>	1,033
(Gain) / loss on disposal of assets	<b>64</b>	7
<b>Change in assets / liabilities:</b>		
(Increase) / decrease in net receivables **	<b>(5,237)</b>	(3,316)
(Increase) / decrease in prepayments	<b>(33)</b>	(6)
Increase / (decrease) in employee provisions	<b>1,163</b>	1,209
Increase / (decrease) in supplier payables	<b>214</b>	(92)
Increase / (decrease) in other payables	<b>834</b>	108
Increase / (decrease) in other provisions	<u><b>34</b></u>	<u>31</u>
<b>Net cash from / (used by) operating activities</b>	<u><u><b>(1,657)</b></u></u>	<u><u><b>297</b></u></u>

\*\* is net of the Distribution to owners in the Statement of Changes in Equity

## Note 11: Contingent Liabilities and Contingent Assets

At 30 June 2011, 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.

The Commission had no significant remote contingencies.

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## Note 12: Senior Executive Remuneration

Note 12A: Senior executive remuneration expense for the reporting period

	2011	2010
	\$	\$
<b>Short-term employee benefits:</b>		
Salary	4,934,520	4,821,178
Annual leave accrued	425,247	403,011
Performance bonus	205,766	327,188
Allowances	<u>417,981</u>	<u>212,450</u>
<b>Total short-term employee benefits</b>	<b><u>5,983,514</u></b>	<b><u>5,763,827</u></b>
<b>Post-employment benefits:</b>		
Superannuation	<u>828,175</u>	<u>764,756</u>
<b>Total post-employment benefits</b>	<b><u>828,175</u></b>	<b><u>764,756</u></b>
<b>Other long-term benefits:</b>		
Long-service leave	<u>129,030</u>	<u>131,398</u>
<b>Total other long-term benefits</b>	<b><u>129,030</u></b>	<b><u>131,398</u></b>
<b>Total</b>	<b><u>6,940,719</u></b>	<b><u>6,659,981</u></b>

### Notes:

1. This note includes remuneration of members of the Commission and employees in the Senior Executive Service.
2. Note 12A was prepared on an accrual basis (so the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 12B).
3. Note 12A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than \$150,000.
4. During the year the Commission paid nil in termination benefits to senior executives. (2010: nil)

**Note 12B: Average annualised remuneration packages and bonus paid for senior executives as at the end of the reporting period**

Fixed elements and bonus paid 1	As at 30 June 2011					As at 30 June 2010						
	Senior Executives	Fixed elements			Bonus paid 2	Senior Executives	Fixed elements			Bonus paid 2		
		No.	Salary	Allowances			Total	Salary	Allowances		Total	
<b>Total remuneration (including part-time arrangements):</b>												
Less than \$150,000												
\$150,000 to \$179,999	3	138,823	997	139,820	-	3	120,430	997	121,427	6,638		
\$180,000 to \$209,999	9	153,222	20,235	173,457	8,295	9	152,307	15,855	168,162	8,494		
\$210,000 to \$239,999	7	174,276	20,520	194,796	12,330	6	168,020	20,632	188,652	12,811		
\$240,000 to \$269,999	3	209,621	15,151	224,772	10,243	6	213,495	14,623	228,118	16,248		
\$270,000 to \$299,999	3	251,590	8,074	259,665	4,689	2	250,791	997	251,788	20,695		
\$300,000 to \$329,999	2	280,044	997	281,041	-	-	-	-	-	-		
\$330,000 to \$359,999	1	306,704	778	307,482	-	1	278,828	22,114	300,942	-		
\$360,000 to \$389,999	-	-	-	-	-	-	-	-	-	-		
\$390,000 to \$419,999	-	-	-	-	-	-	-	-	-	-		
\$420,000 to \$449,999	1	429,728	1,813	431,542	-	1	400,767	-	400,767	-		
\$450,000 to \$479,999	-	-	-	-	-	-	-	-	-	-		
\$480,000 to \$509,999	-	-	-	-	-	-	-	-	-	-		
\$510,000 to \$539,999	-	-	-	-	-	-	-	-	-	-		
<b>Total</b>	<b>29</b>					<b>28</b>						

**Notes:**

- 1 This table reports members of the Commission and substantive senior executives who were employed by the Commission at the end of the reporting period. Fixed elements were based on the employment agreement of each individual. Each row represents an average annualised figure (based on headcount) for the individuals in that remuneration package band (i.e. the 'Total' column).
- 2 This represents average actual bonuses paid during the reporting period in that remuneration package band. The 'Bonus paid' was excluded from the 'Total' calculation, (for the purpose of determining remuneration package bands). The 'Bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the Commission during the financial year.

**Variable elements:**

With the exception of bonuses, variable elements were not included in the 'Fixed Elements and Bonus Paid' table above. The following variable elements were available as part of senior executives' remuneration package:

- (a) Bonuses:
  - Bonuses were based on the performance rating of each individual where eligible for a bonus. The maximum bonus that an individual could receive was 10 per cent of his/her base salary.
- (b) On average senior executives were entitled to the following leave entitlements:
  - Annual Leave (AL): entitled to 20 days (2010: 20 days) each full year worked (pro-rata for part-time SES);
  - Personal Leave (PL): entitled to 15 days (2010: 15 days) or part-time equivalent; and
  - Long Service Leave (LSL): in accordance with *Long Service Leave (Commonwealth Employees) Act 1976*.
- (c) Senior executives were members of one of the following superannuation funds:
  - Commonwealth Superannuation Scheme (CSS): this scheme is closed to new members, and employer contributions were averaged 22.7 per cent (2010: 19 per cent) (including productivity component). More information on CSS can be found at <http://www.css.gov.au>;
  - Public Sector Superannuation Scheme (PSS): this scheme is closed to new members, with current employer contributions were set at 16.3 per cent (2010: 15.9 per cent) (including productivity component). More information on PSS can be found at <http://www.pss.gov.au>;
  - Public Sector Superannuation accumulation plan (PSSap): employer contributions were set at 15.4 percent (2010: 15.4 per cent), and the fund has been in operation since July 2005. More information on PSSap can be found at <http://www.pssap.gov.au>; and
  - Other: there were some senior executives who had their own superannuation arrangements (e.g. self-managed superannuation funds, Australian Government Employee Superannuation Trust (AGEST), or other commercial superannuation funds.) Their employer contributions were set at the superannuation guarantee (SG) rate (9%) or 15.4 per cent depending on their instrument of employment. (2010: SG rate or 15.4 per cent).
- (d) Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense payment fringe benefits.

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*Note 12C: Other highly paid staff*

During the reporting period, there was 1 employee (2010: 1 employee) whose salary plus performance bonus was \$150,000 or more. This employee did not have a role as a senior executive and were therefore not disclosed as a senior executive in Note 12A and Note 12B.

**Note 13: Remuneration of Auditors**

	<b>2011</b>	<b>2010</b>
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Commission.		
The fair value of the services provided was:	<u>36</u>	<u>35</u>
	<u><u>36</u></u>	<u><u>35</u></u>

No other services were provided by the auditors of the financial statements.

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## Note 14: Financial Instruments

### Note 14A: Categories of financial instruments

	2011	2010
	\$'000	\$'000
<b>Financial Assets</b>		
Loans and receivables		
Cash and cash equivalents	387	415
Trade receivables	<u>60</u>	<u>17</u>
<b>Carrying amount of financial assets</b>	<u><u>447</u></u>	<u><u>432</u></u>
<b>Financial Liabilities</b>		
Other liabilities		
Payables – suppliers	<u>585</u>	<u>371</u>
<b>Carrying amount of financial liabilities</b>	<u><u>585</u></u>	<u><u>371</u></u>

### Note 14B: Net income and expense from financial assets

There is no income or expense from financial assets – loans and receivables in the year ending 30 June 2011. (2010: nil)

### Note 14C: Net income and expense from financial liabilities

There is no income or expense from other financial liabilities in the year ending 30 June 2011. (2010: nil)

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

There are no financial instruments held at 30 June 2011 where the carrying amount is not a reasonable approximation of fair value. (2010: nil)

### Note 14E: Credit Risk

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total of trade receivables (2011: \$60,000 and 2010: \$17,000). The Commission has assessed that there is no risk of default on payment.

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

The Commission holds no collateral to mitigate against credit risk.

No financial instruments were impaired in 2011. (2010: nil)

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

*Note 14F: Liquidity Risk*

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

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

All financial liabilities mature within one year. (2010: one year)

The Commission has no derivative financial liabilities in both the current and prior year.

*Note 14G: Market Risk*

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

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

## Note 15: Appropriations

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

	2010-11 Appropriations					Appropriation applied in 2011 (current and prior years)	Variance
	Appropriation Act		FMA Act		Total appropriation		
	Annual Appropriation	Appropriations reduced (a)	Section 30	Section 31			
<b>Departmental</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Ordinary annual services	41,424	-	56	2,708	44,188	38,375	5,813
Other services	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
<b>Total departmental</b>	<b>41,424</b>	<b>-</b>	<b>56</b>	<b>2,708</b>	<b>44,188</b>	<b>38,375</b>	<b>5,813</b>

### Notes:

(a) Appropriations reduced under Appropriation Acts (No.1,3,5) 2010-11: sections 10, 11, 12 and 15 and under Appropriation Acts (No.2,4,6) 2010-11: sections 12, 13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request that the Finance Minister reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

(b) S.31 receipts include a cash payment for lease incentive on the Melbourne premises - this will be reduced on a straight-line basis over the term of the lease.

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

	2009-10 Appropriations					Appropriation applied in 2010 (current and prior years)	Variance
	Appropriation Act		FMA Act		Total appropriation		
	Annual Appropriation	Appropriations reduced (a)	Section 30	Section 31 (b)			
<b>Departmental</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Ordinary annual services	34,561	(5,372)	21	768	29,978	30,681	(703)
Other services							
Previous years' outputs	868	–	–	–	868	868	–
<b>Total departmental</b>	<b>35,429</b>	<b>(5,372)</b>	<b>21</b>	<b>768</b>	<b>30,846</b>	<b>31,549</b>	<b>(703)</b>

**Notes:**

(a) Appropriations reduced under Appropriation Acts (No.1,3) 2009-10: sections 10, 11 and 12 and under Appropriation Acts (No.2,4) 2009-10: sections 12, 13 and 14. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request that the Finance Minister reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 13 May 2010, the Finance Minister issued a determination to reduce departmental appropriations. The amount of the reduction under Appropriation Act (No.3) 2009-10 was \$5,199,000. On 29 June 2010, the Finance Minister issued a determination to reduce departmental appropriations following a request by the Treasurer. The amount of the reduction under Appropriation Act (No.1) 2009-10 was \$173,000.

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

	2011	2010
Authority	\$'000	\$'000
Appropriation Act (No.1) 2008-09	-	1,343
Appropriation Act (No.1) 2009-10	-	8,858
Appropriation Act (No.1) 2010-11	<u>15,797</u>	-
<b>Total as at 30 June</b>	<u><b>15,797</b></u>	<u><b>10,201</b></u>

### **Note 16: Special Accounts**

The Commission had an Other Trust Monies Special Account. This account was established under section 20 of the *Financial Management and Accountability Act 1997*. The purpose of the Other Trust Monies Special Account was for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. Any money held was thus special public money under section 16 of the *Financial Management and Accountability Act 1997*. For the years ended 30 June 2000-2010, the account had a nil balance and there were no transactions debited or credited to it. This account was abolished with effect from 19 October 2010.

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## Note 17: Compensation and Debt Relief

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	2011	2010
	\$	\$
<b>Departmental</b>		
No 'Act of Grace' expenses were incurred during the reporting period. (2010: No expenses)	—	—
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2010: 2 waivers)	—	54,268
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2010: No payments)	—	—
No ex gratia payments were provided for during the reporting period. (2010: No payments)	—	—
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act 1999</i> (PS Act) during the reporting period. (2010: No payments)	—	—

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## Note 18: Reporting of Outcomes

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

	<b>Outcome 1</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Expenses</b>		
Departmental	<u>37,280</u>	<u>33,350</u>
<b>Total</b>	<u>37,280</u>	<u>33,350</u>
<b>Other own-source income</b>		
Departmental	<u>308</u>	<u>285</u>
<b>Total</b>	<u>308</u>	<u>285</u>
<b>Net cost of outcome delivery</b>	<u>36,972</u>	<u>33,065</u>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that were eliminated in calculating the actual Budget Outcome. Refer to Outcome 1 Resourcing Table on page [page no.] of this Annual Report.

## Note 19: Comprehensive Income attributable to the Commission

	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Comprehensive Income <sup>1</sup>	<b>307</b>	1,752
Plus: non-appropriated expenses		
Depreciation and amortisation expenses	<u>997</u>	<u>—</u>
<b>Total Comprehensive Income attributable to the Commission</b>	<u>1,304</u>	<u>1,752</u>

<sup>1</sup> As per the Statement of Comprehensive Income.

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