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2 May 2001



The Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600
Attention: Ms Margot Kerley

Review of Accrual Budget Documentation

Thank you for inviting the Productivity Commission to submit its views to the JCPAA on the review of the accrual budget documentation as outlined in your letter of 3 April 2001.

First, I would like to draw your attention to the recently released draft report by the Commission on the Government commissioned inquiry into *Cost Recovery Arrangements across Commonwealth Regulatory, Administrative and Information Agencies*. A copy of the draft report is enclosed. In addition to the overview and draft recommendations contained in the report, I would refer you more specifically to Chapter 3, draft recommendation 3.2 (page 43) and chapter 10, paragraph 10.3 (page 237), which proposes more information be disclosed in agencies' Annual Reports and Portfolio Budget Statements, and where it is suggested that the JCPAA and the Senate Estimates Committee could provide input in determining the appropriate level of reporting of cost recovery arrangements.

In response to your request the Commission would like to comment generally as follows.

The Commission found the move from cash to accrual budgeting reasonably straightforward. The reporting framework under accrual budgeting is broadly consistent with that which had been developed previously within the Commission. (For example, the nature of the Commission's operations means that there are generally not large timing differences between cash and accrual recording.) The financial statements now included in the PBS align with those prepared for the Annual Report. For your information a copy of Commission's part of the Treasury's Portfolio PBS for 2000-01 is attached.

As you know, the Commission's role is to contribute to well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards. In this type of work it is difficult to determine measures for assessing performance in achieving outcomes and outputs. Nevertheless the Commission believes it is building up over time a worthwhile set of performance indicators for its outputs. Details are provided annually in Appendix B of the Annual Report and a copy of the 1999-2000 report is attached for your information.

If we can be of further assistance with the inquiry, please let me know (03 9653 2293 or rkerr@pc.gov.au).

Robert Kerr
Head of Office

Attachments

PRODUCTIVITY COMMISSION

Section 1: Overview, Appropriations and Budget Measures Summary

OVERVIEW

The Productivity Commission (PC) is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. The Commission's work covers all sectors of the economy. It extends to the public and private sectors and focuses on areas of Commonwealth as well as State and Territory responsibility.

As a review and advisory body the PC does not have responsibility for implementing government programmes. It carries out research, inquiry, advising and incidental functions prescribed under the *Productivity Commission Act 1998*.

The PC contributes to 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. It does this by undertaking:

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

APPROPRIATIONS

The total appropriation for the PC in the 2000-01 Budget is \$23.8 million (see Table 1.1 on the following page).

Part C: Agency Budget Statements — PC

Productivity Commission — Appropriations and Other Income 2000-01

Table 1.1: Appropriations (\$'000)

Outcomes	Price of Outputs					Administered				Total Appropriations
	Revenue from Government (Appropriations)			Revenue from other sources	Price of Outputs	Annual Appropriations	Special Approps	Total Administered Appropriations		
	Bill No 1	Special Approps	Total			Bill No 1	Bill No 2 (SPPs & NAOs)			
	(A)	(B)	(C=A+B)	(D)	(E= C+D)	(F)	(G)	(H)	(I=F+G+H)	(J=C+I)
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	22,148	-	22,148	315	22,463	-	-	-	-	22,148
Total	22,148	-	22,148	315	22,463	-	-	-	-	22,148
						Agency Capital (Equity Injections and Loans)				1,686
						Administered Capital				-
						Total Appropriations				23,834

(a) Table 2.1 shows how the appropriations in the above table relate to total resourcing.

- (b) Under the appropriation structure, Bill No 2 includes Specific Purpose Payments (SPPs), New Agency Outcomes (NAOs), administered capital and agency capital via agency injections and loans.
- (c) Refer to Agency Budget Statement of Revenue and Expenses (see Table 3.1).
- (d) Revenue from Other Sources includes other revenue from government (for example, resources free of charge) and revenue from sources other than government (for example, sales of goods and services).

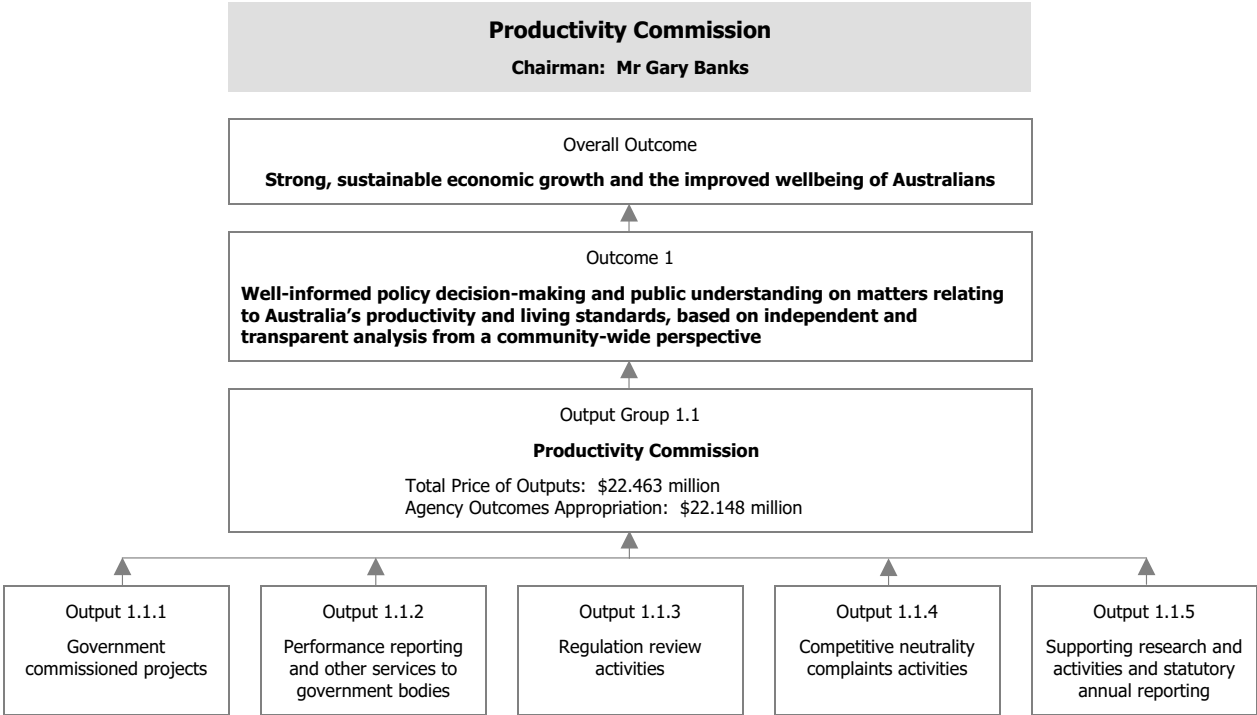
ADMINISTERED CAPITAL AND AGENCY CAPITAL (EQUITY INJECTIONS AND LOANS)

The PC will receive \$1,686,000 in unspent funding from 1998-99 in the form of an equity injection in 2000-01.

Section 2: Outcomes and Outputs Information

OUTCOMES AND OUTPUT GROUPS

The following map shows the relationship between Government outcomes and the contributing outputs for the Productivity Commission (PC). Financial detail for Outcome 1 by output appears in Table 2.1 while non-financial information for Outcome 1 appears in Table 2.2.



CHANGES TO OUTCOMES AND OUTPUTS

There are no proposed changes in outcomes or outputs since the previous year.

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.

MEASURES IN THE 2000-01 BUDGET

There are no measures for the Productivity Commission in the 2000-01 budget.

RESOURCES FOR OUTCOME 1

Table 2.1 shows how the 2000-01 appropriation relate to total resourcing for Outcome 1.

Table 2.1: Total Resources for Outcome 1

	Estimated Actual 1999-00 (\$'000)	Budget Estimate 2000-01 (\$'000)
Agency appropriations		
Output group 1.1 — Productivity Commission		
Output 1.1.1 — Government commissioned projects	11,300	11,200
Output 1.1.2 — Performance reporting and other services to government	3,100	3,100
Output 1.1.3 — Regulation review activities	2,700	2,600
Output 1.1.4 — Competitive neutrality complaints activities	200	200
Output 1.1.5 — Supporting research and activities and statutory annual reporting	5,308	5,363
Subtotal output group 1.1	22,608	22,463
Total revenue from government (appropriations)	21,662	22,148
contributing to price of agency outputs	96%	99%
Total revenue from other sources	125	315
Total price of agency outputs		
<i>(Total revenue from Government and from other sources)</i>	21,787	22,463
Total estimated resourcing for outcome 1		
<i>(Total price of outputs and administered expenses)</i>	22,608	22,463
	1999-00	2000-01
Average staffing levels (number)	205	200

CONTRIBUTION OF OUTPUTS TO OUTCOME 1

The Productivity Commission's five outputs derive from its statutory functions. The quantum and scope of the work under each output are largely determined externally (for example, government commissioned projects, regulation impact statement assessments, competitive neutrality complaints investigations). In view of this, the Commission requires the flexibility to vary resources amongst its various outputs.

The effectiveness with which the Commission's outputs contribute to achievement of the outcome is difficult to assess and is often subjective. The Commission is but one source of policy advice on matters relating to Australia's productivity and living standards, and many issues are complex and long term. The Commission aims to demonstrate its effectiveness by reporting annually on the relevance, quality, timeliness and cost-effectiveness of its outputs.

An elaboration of the activities covered by each of the outputs is as follows:

Output 1 (government commissioned projects) — public inquiries (for example, gambling, broadcasting), case studies (such as building industry work arrangements) and other commissioned work (such as environmental performance of buildings);

Output 2 (performance reporting and other services to government) — Government Services and Government Trading Enterprise performance reports, as well as international benchmarking;

Output 3 (regulation review activities) — assessments of Regulation Impact Statements, a range of associated activities such as annual reporting, research, advice and education; and

Output 4 (competitive neutrality complaints activities) — investigations of competitive neutrality complaints and associated activities such as research, advice and education; and Output 5 (supporting research and activities and statutory annual reporting) — statutory annual reporting, research and working papers and associated activities such as submissions, conferences and speeches.

PERFORMANCE INFORMATION FOR OUTCOME 1

Table 2.2: Performance Information 2000-01

Performance Information for Agency Outputs

Output Group 1.1 — Productivity Commission

Output 1.1.1 — Government commissioned projects	Capacity to undertake projects to a cost of \$11.2 million. Projects of a high standard, useful to government, undertaken in accordance with required processes and on time.
Output 1.1.2 — Performance reporting and other services to government	Capacity to provide reports and services to a cost of \$3.1 million. Reports of a high standard, useful to government and completed on time.
Output 1.1.3 — Regulation review activities	Capacity to undertake Regulation Impact Statement assessments and associated activities to a cost of \$2.6 million. Regulation Impact Statement assessments and associated activities of a high standard, advice useful to government and on time.
Output 1.1.4 — Competitive neutrality complaints activities	Capacity to undertake activities to a cost of \$0.2 million. Competitive Neutrality complaints successfully resolved within 90 days; associated activities of a high standard and useful to government.
Output 1.1.5 — Supporting research and activities and statutory annual reporting	Capacity to undertake annual reporting, research projects and associated activities to a cost of \$5.363 million. Reports, projects and associated activities of a high standard, useful to government, raising community awareness and on time.

Evaluations

Evaluation of actual levels of achievement will be shown in the PC's 1999-2000 Annual Report.

Competitive Tendering and Contracting

The PC's outputs stem from its legislative functions. It uses periodic benchmarking and other means to monitor the cost effectiveness of its operations.

Section 3: Budgeted Financial Statements

The budgeted financial statements will form the basis of the financial statements that will appear in the Productivity Commission's 2000-01 Annual Report, and form the basis for the input into the Whole of Government Accounts. The financial statements should be read in conjunction with the accompanying notes.

Budget Statement of Revenues and Expenses (Budget Operating Statement)

This statement provides a picture of the expected financial results for the PC by identifying full accrual expenses and revenues, which highlights whether the PC is operating at a sustainable level.

Budget Statement of Assets and Liabilities (Budget Balance Sheet)

This statement shows the financial position of the PC. It enables decision makers to track the management of the PC's assets and liabilities.

Budget Cash Flow Statement

This statement identifies expected cash flows from operating activities, investing activities and financing activities.

Capital Budget Statement

This statement shows all proposed capital expenditure funded through the Budget as appropriations or from internal sources.

Non-financial Assets — Summary of Movement

This statement shows the movement in the PC's non-financial assets over the Budget year 2000-01.

Notes to the Financial Statements

These form an integral part of the Budget Financial Statements and provide a summary of the bases on which Statements were prepared.

**Table 3.1: Agency Budget Statement of Revenue and Expenses
(for the period ended 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Operating revenue					
Revenues from government	21,662	22,148	22,158	22,229	22,268
Sales of goods and services	60	208	215	223	230
Interest	25	67	87	109	128
Other ^(a)	40	40	40	40	40
Total operating revenues	21,787	22,463	22,500	22,601	22,666
Operating expenses					
Employees	15,972	15,950	16,040	16,140	16,240
Suppliers	5,900	5,747	5,694	5,721	5,753
Depreciation and amortisation	736	766	766	740	673
Total operating expenses	22,608	22,463	22,500	22,601	22,666
Operating surplus or (deficit) before abnormal and extraordinary items	-821	-	-	-	-
Operating surplus or (deficit) after abnormal and extraordinary items and CUC	-821	-	-	-	-

(a) It should be noted that resources received free of charge included here as Other are included in the total price of outputs appropriations in section 2.

**Table 3.2: Agency Budget Statement of Assets and Liabilities
(as at 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Assets					
Financial assets					
Cash	167	2,717	3,500	4,334	5,093
Receivables	1,598	15	15	15	15
Prepayments	130	130	130	130	130
Total financial assets	1,895	2,862	3,645	4,479	5,238
Non-financial assets					
Land and buildings					
Infrastructure, plant and equipment	2,354	1,943	1,603	1,186	777
Intangibles	253	160	67	-	-
Total non-financial assets	2,607	2,103	1,670	1,186	777
Total Assets	4,502	4,965	5,315	5,665	6,015
Liabilities					
Debt					
Leases	40	30	20	10	-
Total debt	40	30	20	10	-
Provisions and payables					
Employees	5,807	6,207	6,597	6,987	7,377
Suppliers	180	129	99	69	39
Total provisions and payables	5,987	6,336	6,696	7,056	7,416
Total liabilities	6,027	6,366	6,716	7,066	7,416
Equity					
Capital	1,562	1,686	1,686	1,686	1,686
Reserves	96	96	96	96	96
Accumulated surplus or deficit	-3,183	-3,183	-3,183	-3,183	-3,183
Total equity	-1,525	-1,401	-1,401	-1,401	-1,401
Current liabilities	3,078	3,097	3,137	3,177	3,217
Non-current liabilities	2,949	3,269	3,579	3,889	4,199
Current assets	1,895	2,862	3,645	4,479	5,238
Non-current assets	2,607	2,103	1,670	1,186	777

**Table 3.3: Agency Budget Cash Flow Statement
(for the period ended 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Operating activities					
Cash received					
Appropriations for outputs	21,271	21,896	21,835	21,983	22,014
Sales of goods and services	50	198	205	213	220
Interest	25	67	87	109	128
Total cash received	21,346	22,161	22,127	22,305	22,362
Cash used					
Employees	15,301	15,550	15,650	15,750	15,850
Suppliers	5,900	5,747	5,694	5,721	5,753
Total cash used	21,201	21,297	21,344	21,471	21,603
Net cash from operating activities	145	864	783	834	759
Investing activities					
Cash received					
Proceeds from sales of property, plant and equipment	10	10	10	10	10
Other	391	252	323	246	254
Total cash received	401	262	333	256	264
Cash used					
Purchase of property, plant and equipment	401	262	333	256	264
Other					
Total cash used	401	262	333	256	264
Net cash from investing activities					
Financing activities					
Cash Received					
Other	-	1,686	-	-	-
Total cash received	-	1,686	-	-	-
Net cash from financing activities	-	1,686	-	-	-
Net increase in cash held	145	2,550	783	834	759
Cash at the beginning of the reporting period	22	167	2,717	3,500	4,334
Cash at the end of the reporting period	167	2,717	3,500	4,334	5,093

Table 3.4: Agency Capital Budget Statement (for the period ended 30 June)

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Purchase of non-funded current assets					
Funded by capital appropriations	-	-	-	-	-
Funded internally from other resources	401	262	333	256	264

Part C: Agency Budget Statements — PC

Table 3.5: Agency Non-financial Assets — Summary of Movement

	Land	Buildings	Total Land and Buildings	Other Infrastructure, Plant and Equipment	Total Infrastructure, Plant and Equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross value							
<i>As at 1 July 2000 (opening)</i>				5,407	5,407	466	5,873
Additions	-	-	-	262	262	-	262
Disposals	-	-	-	387	387	-	387
Other movements	-	-	-	-	-	-	-
<i>As at 30 June 2001 (closing)</i>	-	-	-	5,282	5,282	466	5,748
Accumulated depreciation							
<i>As at 1 July 2000 (opening)</i>	-	-	-	3,053	3,053	213	3,266
Disposals	-	-	-	387	387	-	387
Charge for the reporting period	-	-	-	673	673	93	766
Other movements	-	-	-	-	-	-	-
<i>As at 30 June 2001 (closing)</i>	-	-	-	3,339	3,339	306	3,645
Net book value as at 30 June 2001 (Closing book value)	-	-	-	1,943	1,943	160	2,103
Net book value as at 1 July 2000 (Opening book value)	-	-	-	2,354	2,354	253	2,607
Total additions							
Self funded	-	-	-	262	262	-	262
Appropriations	-	-	-	-	-	-	-
Total	-	-	-	262	262	-	262

NOTES TO THE FINANCIAL STATEMENTS

Basis of Accounting

These financial statements have been prepared on a full accrual basis with the Commission being funded accordingly from 2000-01 onwards.

The Budget Balance Sheet for 1999/2000 shows an amount carried forward from 1998-99 as both a Receivable and a Capital injection. The amount of \$1,686,000, including interest will be received and banked in 2000-01.

Non-financial assets consist mainly of Leasehold Improvements to the Commission's leased accommodation, and are being depreciated over the period of the leases. As no major capital expenditure is being proposed during the current estimating period through to year 2003-04, the written down value is decreasing annually. Conversely the Commission's financial assets are increasing through the funding of depreciation and will be available when required for future improvements.

Performance against Outcomes and Outputs

Performance information is included earlier under Table 2.2.