

New Zealand Productivity Commission
Te Kōmihana Whai Hua o Aotearoa

Annual report

1 July 2020 – 30 June 2021

Presented to the House of Representatives pursuant
to section 149 of the Crown Entities Act 2004

Contents

Our year at a glance	2
Chair's message	3
Who we are	5
Our governance and capability	6
How we measure our performance	10
Our performance this year	13
2020-21 Statement of performance	25
2020-21 Financial performance summary	35
Statement of responsibility for the year ended 30 June 2021	38
Independent Auditor's Report	39
2020-21 Financial statements	42
Our governance and management	58

Our year at a glance

- The Commission had a change in leadership with our 10-year establishment Chair, Murray Sherwin, completing his term and handing over to Dr. Ganesh Nana for a 5 year term. Dr. Bill Rosenberg also joined the Board as Commissioner.
 - The Minister of Finance sent the Commission a new [Letter of Expectations](#). This asked Crown entities to take a whole of government approach, to focus on intergenerational outcomes and look beyond traditional measures of economic success, such as GDP. The Minister asked the Commission to maintain its robust analysis, but to extend our public engagement and the impact of our work by informing and interacting with a wider range of New Zealanders.
 - The Commission started a strategic review in response to our new Letter of Expectations, our new Chair and it being ten years since the Commission's inception.
 - We submitted a Budget bid to restore our research and engagement capability and achieved partial funding. This means that we will start to rebuild our independent research, increase consultation with key communities and align our strategy and work programme with the Government's priorities.
 - The Commission completed its inquiry into maximising the economic contribution of New Zealand's most productive "frontier" firms. It found that the productivity of New Zealand's frontier firms lags, on average, up to 55% behind that of frontier firms in high-performing small advanced economies. To make progress, focused innovation policy is key. Our [final report](#) made 71 findings and 30 policy recommendations to Government.
 - The frontier firms report generated 58 news items in the two weeks following its public release (on 20 April 2021), including in Waatea News and on Māori TV. Opinion-editorials helped promote our work to a wide audience across the course of the inquiry with 12 items published. Social media also helped raise awareness and generate discussion.
 - The Government issued the Commission with the [terms of reference](#) for a new inquiry into immigration settings for New Zealand's long-term prosperity and wellbeing. The Commission considered 77 submissions and held more than 65 meetings with individuals, firms, government and non-government organisations to inform the release of its preliminary findings and recommendations.
 - The Government asked the Commission to scope a new inquiry into reducing persistent disadvantage in New Zealand.
- This marked a new approach - the first time the Government has asked us to prepare, rather than provided us, with the terms of reference for an inquiry.
- In response to the Covid-19 pandemic, the Commission ran a [Pandemic-economics blog](#) to share perspectives and generate discussion on policy responses. Over a 5-month period, 26 posts generated 16 500 unique web views. The most popular post was on [lockdown and the effect on children's learning and wellbeing](#) (6 500 unique views).
 - We substantially updated the content, readability and design of our benchmarking publication [Productivity by the numbers](#). It generated significant media coverage, including on The AM Show (TV3), Seven Sharp (TVNZ) and 1 News (TVNZ).
 - The Commission released a new video on [What is productivity, and why does it matter?](#) to help raise public awareness and understanding of productivity, generating 1 700 views.
 - The Government actioned a number of our inquiry recommendations, including implementing an electric vehicle rebate, introducing climate-related financial disclosures, updating The Education and Training Act to offer more flexible options, and reforming the Commerce Act to prevent the misuse of market power.

Chair's message



Ka tangi te titi

Ka tangi te kaka

Ka tangi hoki ahau

Tihei Mauri Ora

Tēnā koe,

In taking up the role of Chair this year I felt a deep sense of responsibility to foster and reinforce the Commission's efforts to lift productivity and the wellbeing of all in Aotearoa.

However, the year has undoubtedly been dominated by the Covid-19 pandemic and the resulting social and economic disruption. This is a period of intense uncertainty that has been unsettling for many. But it is incumbent on us to continuously learn from our experiences and retain our aspirations for a better future for our mokopuna. The word 'resilience' has become more noticeable as businesses and communities confront the potential for ongoing heightened uncertainty. In response, Covid-19 has pushed many businesses to adopt innovative processes, shift to online interactions and deploy newer technologies.

The findings of our inquiry into New Zealand's most productive "frontier" firms this year reinforced the importance of innovation. We found that the productivity of New Zealand's frontier firms lags, on average, up to 55% behind those of high-performing small advanced economies. Interestingly, our inquiry found higher rates of research and development investments by Māori firms and incorporations compared to other firms. In addition, the longer-term multi-objective perspectives of many Māori enterprises is seen as a strength in meeting the investment and innovation challenge. Overhauling New Zealand's innovation ecosystems can

enable and encourage firms to innovate and export at scale. Developing world-leading firms can provide the canopy cover for our small-to-medium enterprises to flourish, increasing productivity and improving wellbeing for all.

This year marks a milestone for the Commission as we celebrate 10 years since our establishment. Over this time, Murray Sherwin led the Commission in producing a substantial body of work to build on and draw on in the years to come. This work contains insights across a diverse range of topics – from a low-emissions economy, to better social services, local government funding and financing, and affordable housing. The Commission has now completed 15 inquiries, including over 600 recommendations aimed at lifting productivity and wellbeing for New Zealanders.

As the new Chair with a new Letter of Expectations this year from the Minister of Finance it is an opportune time to review the Commission's position and refine our kaupapa. The Minister has asked the Commission to maintain its robust analysis, look at a longer-term picture, cross-cutting policy issues and settings, our impact, and to extend our engagement with a wider range of people, communities, and organisations. We are now refreshing our strategy to set new goals that are fit for the future. We look forward to opportunities to share our future direction and, ultimately, for you to see our new strategy in action.

This year the Commission submitted a Budget bid to restore our research and engagement capability and enable us to deliver on our full mandate. Across the 10 years since establishment the Commission's funding has remained static – consequentially being 8.1% lower in real terms by 2019-20. This had resulted in aggressive cost management by leaving staff vacancies unfilled, scaling back research, disestablishing the Productivity Hub and reducing our inquiry capability. Our Budget bid was partially successful and means that the Commission is now rebuilding staffing levels, our independent research function and planning wider consultation with key communities to align with the Government's priorities.

The Commission had a reduced work programme this year with our one inquiry into New Zealand's frontier firms. Alongside the aggressive cost management, this resulted in the Commission tracking \$978k under budget for the reporting period. A second inquiry topic was due to be assigned when the Covid-19 pandemic hit New Zealand, but was postponed with the Government's focus on the crisis and the Election. The Commission is pleased to now be working on two inquiries. As a result of having a full work programme, costs are expected to track upwards for the year ahead, but remain within our new Budget allocation.

In May 2021, the Government assigned the Commission an inquiry into New Zealand's working-age immigration settings. We have recently shared our preliminary recommendations with you and we look forward to your feedback.

In June 2021, the Government asked us to scope a second inquiry into reducing persistent disadvantage in New Zealand. We welcomed this new approach – the first time the Government has asked us to prepare the terms of reference for an inquiry. In response, we engaged two media partners to broaden interest and public input into the inquiry. We also worked with Māori to focus input on specific areas of interest.

We were pleased to hear the views of over 1 000 people and organisations and to engage directly with many on this challenging mahi. We have submitted the subsequent terms of reference to Cabinet for consideration in November.

While this year been challenging for the Commission, the staff and Commissioners are confident and indeed excited about our future opportunities. As a new Chair, I share this excitement and am committed to our mahi and developing kaupapa – alongside the opportunity to further focus our efforts to improve productivity and deliver better wellbeing for all in Aotearoa through productivity. I look forward to engaging with a broadening range of audiences and stakeholders during our work, to developing new insights to shine new light on the productivity puzzle. Empowering people, families, whānau, hapū, organisations, and communities with knowledge, understanding and opportunities is central to the changes required to realise our collective aspirations.

I would like to thank all who have participated in our research and inquiry work over the last year. Your insight and advice has helped inform and influence the quality and impact of our work. Please use our work as a resource and explore our evidence, insights, and recommendations in your future deliberations and decision making.

Further, I would like to register my appreciation and thanks for the work and energy of staff and Commissioners during a difficult year. I recognise and acknowledge your adaptability, commitment, and resilience and am sure it will serve us well in years to come.

Nō reira, tēnā koutou, tēnā koutou, tēnā koutou katoa.

Ngā mihi nui,



Dr. Ganesh Nana
Chair

Who we are

Our purpose

The Commission's purpose, as embodied in the New Zealand Productivity Commission Act 2010, is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society.

The overall goal of our work is to contribute to increasing productivity and in doing so, provide greater choices and enhanced wellbeing for all New Zealanders.

Our work

The Commission provides evidence-based, high-quality analysis and advice about ways to improve productivity in New Zealand. We aim to increase the public and political understanding of productivity-related issues and to empower decision makers, with the knowledge and solutions, to influence and change policy.

Our work programme focuses on undertaking inquiries into and research on, and promoting public understanding of, productivity-related matters. The Commission normally works on two inquiries in parallel. However, this year the Government assigned us one inquiry into *New Zealand's frontier firms*, and refrained from allocating a second inquiry as attention shifted to the Covid-19 crisis. Instead the Commission assisted the Treasury in providing advice on topics related to the Covid-19 response.

Undertaking inquiries

Inquiries are substantive pieces of analysis, typically with a 12-15 month timeframe. The time allowed recognises the importance of engaging extensively with interested parties and experts to ensure we are exposed to all points of view, get the best available information, can understand different perspectives and test ideas. The Government chooses inquiry topics to ensure our work is relevant, and our advice pertains to issues they have an interest in addressing. Once topics are set, we are required to act independently.

Publishing research

The Commission conducts research and publishes papers to provide an evidence base on which to base advice that can improve New Zealand's productivity. This work includes benchmarking New Zealand's productivity performance over time, which is presented in our *Productivity by the numbers* publication. Collaboration is important to us and we also work closely with agencies who are active in productivity research. This allows us to access subject/sector specialists and benefit from the cross-promotion of ideas and insights.

Promoting understanding

Educating and promoting understanding of productivity-related matters takes many forms besides our communications activities around inquiries and research. We aim to reach a diverse range of audiences through outreach activities, opinion journalism, blogging, sponsored media articles, social media and email marketing.

Our governance and capability

Our governance

This year has seen significant change in the Commission's governance with Murray Sherwin completing his 10-year appointment as Chair. Murray had established, developed and led the Productivity Commission since its inception. Dr. Ganesh Nana took over the reins as Chair on 31 January 2021, after 22 years at the consultancy Business and Economics Research Limited (BERL). Dr. Bill Rosenberg was also appointed to the Board this year as a Commissioner in September 2020.

The Commission has four part-time Commissioners: Dr. Ganesh Nana (Chair), Andrew Sweet, Prof. Gail Pacheco and Dr. Bill Rosenberg. As the Board they are accountable to Parliament and report to a Responsible Minister within Government, currently the Minister of Finance. The Chair and Commissioners are responsible for the effective governance of the Commission. This includes the appointment and performance of the management team, setting and monitoring strategic direction, delivery of and conformance with accountability documents, integrity of processes and the overall health, wellbeing and sustainability of the organisation (including oversight and management of reputation and risk). Commissioners also oversee the delivery of our work programme and outputs, shaping the scope, content, balance, quality and presentation of our work.

Our people

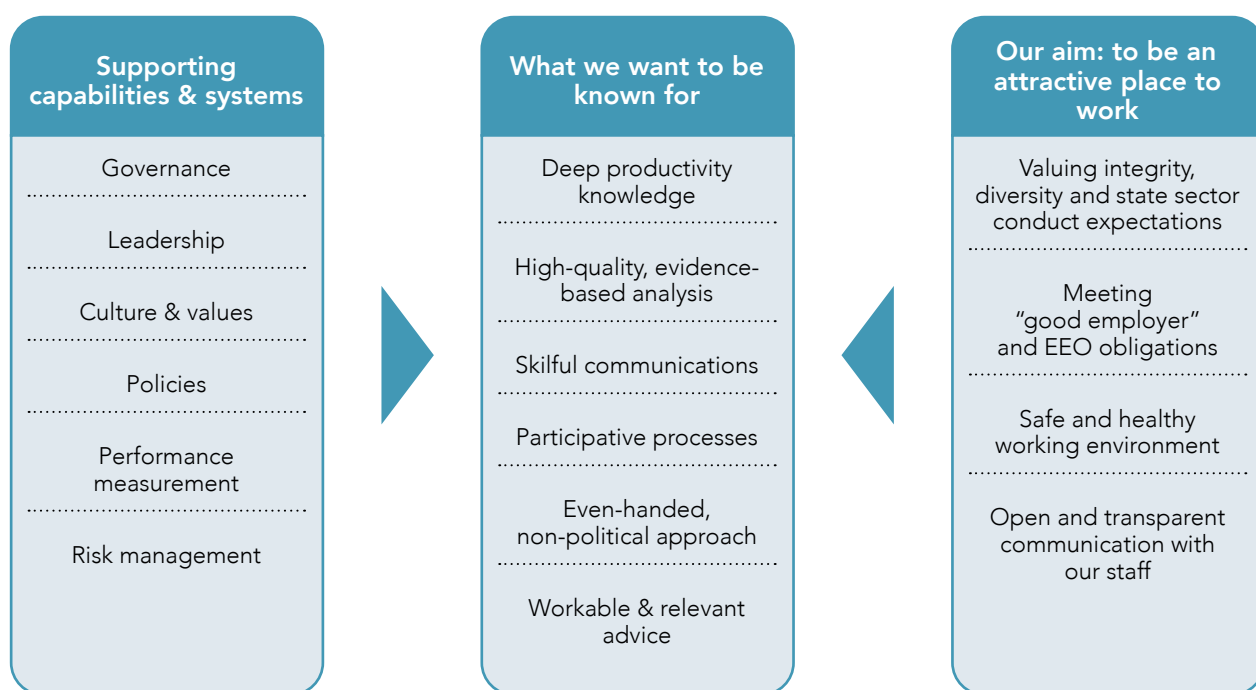
The quality of our people is critical to our success. The Commission aims to attract

and retain strong performers in their field, or those who have significant potential to contribute to our research or inquiry work. Our approach to resourcing is to employ people who bring diverse skills, disciplines and backgrounds to benefit our organisation. Once with us, we strive to provide a rewarding environment where excellence is valued.

We place high importance on supporting staff to develop to their full potential and encourage staff to plan and progress their personal development. There has been a growing awareness that deeper understanding of Te Ao Māori is an essential capability to develop in our workplace. During the year, a group of staff completed an 8-week Victoria University of Wellington course in te reo Māori and tikanga and staff also formed a kapa haka group, which meets regularly. This is helping to revitalise Māori language and develop positive cultural values within the Commission.

Across all staff positions we typically employ between 15 to 20 people with approximately a 50–50 gender split. They are employed on a mixture of permanent and shorter, fixed-term contracts. We supplement our permanent staff with consultants to bring experience and fresh perspectives, as required, and through secondments to take advantage of expertise across the public sector. We also encourage our staff to take up secondments to develop their skills and experience. For example, this year one of our Principal Advisors was seconded to Waka Kotahi NZ Transport Agency to work with iwi on the Transmission Gully Project. An Inquiry Director was also seconded to Toitū Te Whenua Land Information New Zealand as a Strategy Director.

OUR CAPABILITIES



This year saw change to our leadership, with the departure of our Economics & Research Director and secondment of an Inquiry Director. We recruited a new Economics & Research Director and two Principal Advisors stepped up into the roles of Inquiry Directors (Acting).

Our capabilities

Our work demands a high level of capability in areas such as sourcing information, analysis, process management, engagement, communications and influencing. These capabilities assist us to get the right information into the Commission and help us to have a robust process for publishing insightful and influential analysis, findings and recommendations.

Our key capabilities are measured indirectly through our performance measurement and inform our internal priorities for capability development and the reputation we aspire to as an organisation. This, in turn, is linked to how we make a difference.

We value diversity

The Commission values and embraces differences and diverse ways of thinking and being. We aim for our thinking and actions to be informed by a diverse range of views from people, groups and communities across Aotearoa New Zealand. We believe this approach is vital to enhance the credibility, value and effectiveness of our work.

The Commission's diversity and inclusion policy is based on enhancing diversity of thought across our work. This is underpinned by who we are as individuals, our experiences, and our family and cultural heritage. The Board sets and reviews diversity and inclusion objectives each year.

Our approach to diversity and inclusion
We believe that a diverse and inclusive approach to policy development is vital to lifting productivity and wellbeing for New Zealanders.
Our focus on diversity and inclusion will have a positive impact on our performance.
We have a responsibility as an employer and advisor to lead and role model in this area.
We recognise that we do not have all the answers and that we will make progress in this area through discussion, debate and feedback from experts and our stakeholders.
We are prepared to try new things and learn from our mistakes.

This year our diversity and inclusion action plan had two main goals: to develop a knowledge base on diversity and inclusion and to take steps to build workforce diversity. Actions were progressed against these goals as follows:

1. Build initial information, knowledge and awareness – to develop and promote a base of knowledge on diversity and inclusion.

- A baseline workplace profile was provided to Commissioners.
- A diversity and inclusion policy was drafted. This policy will be finalised alongside our strategic refresh and implemented thereafter, with any necessary adjustments to our recruitment and employment processes.
- The leadership team discussed identifying and implementing staff awareness and education tools for diversity and inclusion, but this remains to be progressed.

2. Take formative steps to build workforce diversity – to develop and promote a base of knowledge that will support processes that enable the employment and retention of a more diverse workforce.

- We recognise the lack of diversity across the economics profession, particularly in terms of gender, and with respect to representation for Māori, as well as Pasifika. This relative lack of diversity is also most prominent amongst senior economists. In response, we are trying to focus our recruitment on sourcing strategy(ies), channels, and advertising tools to attract a more diverse range of candidates. We are also pursuing development and leadership opportunities for women in the profession, including the encouragement of links to appropriate networks for staff.
- We developed a [careers section on our website](#) to better communicate the Commission's offering, including our commitment to becoming an equal opportunities employer, and to growing our knowledge and appreciation of Te Ao Māori.

Our diversity and inclusion action plan for the year ahead will further progress this year's goals, but will incorporate new goals around improving accessibility, attracting more women and Māori, and building a culture and workplace that embraces Te Ao Māori.

Strategic risks and building our reputation

The Commission identifies the six below attributes as being vital to our strategic success. We see our strategic risks as the inverse of not achieving or sustaining these key areas of success. When we assess strategic risk, we consider the environment

in which we operate and how we want to be known in that environment:

What we want to be known for	Strategic risk area	Our response
Deep productivity knowledge	Insufficient knowledge	Our research function and inquiry work contribute to a deep understanding of productivity. Through our work and that of others, we will continue to enhance this knowledge. We must also continue to pursue improvement in those areas highlighted through our performance evaluation exercises and make time for staff to pursue professional and knowledge development.
High-quality, evidence-based analysis	Weak analysis	The ongoing development of analytical capability will always be a priority for our overall performance. While high quality skills and experience in economics and public policy remain core requirements our mandate is broad indicating that intellectual and experiential diversity are also important considerations.
Skilful communication	Poor communications	We are always assessing the relevance and utility of our communications approach and tools. This includes understanding how we can ensure that our messages are clear, accessible, and effectively presented. For example this year we used a new design for reports with images and two columns, to make the content more visually appealing, easier to read and the key messages more memorable.
Participative processes	Poor process and/or engagement	Our engagement processes are often highlighted as a strength and a distinguishing feature of our approach relative to core government agencies. We are committed to continuous improvement, for example, our frontier firms inquiry engaged with a range of Māori business collectives, firms and individuals. This engagement was facilitated by specialist consultants active with Māori business.
An even-handed approach	Bias and/or loss of independence	We actively engage with a wide range of individuals and organisations to ensure we are exposed to all points of view, get the best available information and understand different perspectives. We are committed to providing independent advice.
Workable and relevant advice	Seen as overly theoretical and lacking practicability	The quality and workability of our recommendations will be an enduring focus. Overall, feedback to date indicates we are credible and influential through the quality and emerging impact of our work. It is critical that we remain focused on providing relevant and workable advice, and recommendations that can, with political will, be successfully implemented.

How we measure our performance

How we make a difference: our outcomes framework

The Commission seeks to influence two ultimate outcomes: to **lift New Zealand's productivity** and, as a result, **lift the wellbeing of New Zealanders**. Through our work, we:

- explore the causes of New Zealand's weak productivity performance;
- identify the barriers to higher productivity and wellbeing; and
- recommend policies to overcome those barriers.

In producing and publicising research and reports, the Commission aims to inform the public and decision makers, promote debate, and encourage the adoption of policies and behaviours that contribute to lifting productivity and wellbeing. To do this effectively, the Commission must be rigorous, trusted and provide workable advice.

Central to the Commission's impact and influence is our public consultation and engagement. During each inquiry, the Commission engages with a large and diverse group of experts, interested parties, communities and groups across Aotearoa New Zealand. This enables the Commission

OUR OUTCOMES FRAMEWORK

Outcomes for New Zealand

Lift the wellbeing of New Zealanders

Lift New Zealand's productivity

How we make a difference via a wide range of government and non-government activities

What we do

Undertaking inquiries
.....
Publishing research
.....
Promoting understanding

Our core capabilities

Sourcing information
.....
Economic analysis & research
.....
Process management
.....
Engagement
.....
Communications and influencing

We want to be known for

Deep productivity knowledge
.....
High-quality, evidence-based analysis
.....
Skilful communication
.....
Participative processes
.....
Even-handed non-political approach
.....
Workable advice

Our impacts

Policies and behaviours change as a result of the Commission's work
.....
Generating discussion and debate
.....
Levels of engagement and response

to get direct input on specific policy issues and to test ideas. Identifying areas in which policy settings can be made better to enhance productivity and wellbeing is at the heart of the Commission.

Our outcomes framework summarises how we expect to make a difference, along with the core capabilities and the reputation we wish to develop.

How we measure progress: our evaluation against the framework

Measuring the Commission's progress and impact is challenging. Productivity operates at many levels, with many influences, which may take place over long time frames. It can be difficult to identify improvements to productivity or wellbeing that can be directly attributed to our work, as distinct from the many other factors that influence productivity. The topics we work on, the types of analysis we conduct, and the range of community and industry groups we need to engage with change significantly from year to year. It is difficult to capture this diversity of work and effort in fixed quantitative targets, so the Commission takes a strong evaluative-based approach to measuring performance.

For inquiries, an independent review takes place after each inquiry has been completed. For our Economics & Research function, an independent review takes place every two years and evaluates work completed during that period.

These evaluations use the same output measures to ensure comparability, whilst ensuring flexibility for other feedback.

Our evaluation methods

Independent expert review by someone with significant policy and/or productivity research experience, who is familiar with our role and functions.

Survey of external participants using a set of questions covering multiple aspects of our work, such as the quality of our analysis and clarity of our communication.

Stakeholder focus group(s) of about 6–10 attendees from different backgrounds, independently facilitated and without Commission attendance.

Monitoring external feedback and internal workflow processes to capture, share and evaluate feedback received and external responses to our work (in the media, Parliament etc).

[Note: all performance evaluations are published on our website.]

Our output measures

Intended impacts – what happens because of our work

Right focus – the relevance and materiality of our inquiry and research reports

Good process management – the timeliness and quality of our work

High-quality work – the quality of our analysis and recommendations

Effective engagement – quality of engagement with interested parties

Clear delivery of message – how well our work is communicated and presented

Overall quality – the overall quality of the work considering all factors

Where we evaluate: our approach to performance measurement

The Commission is an independent research and advisory body with no operational ability to run or implement policies. The Government is under no obligation to implement Commission recommendations, nor to respond to our reports. We rely solely on the power to skilfully communicate our ideas and analysis to influence and shape policy. This influence may be direct and immediate (eg, through academic, community, public and political recommendation) or it may occur over longer periods, after policies are adjusted or adopted.

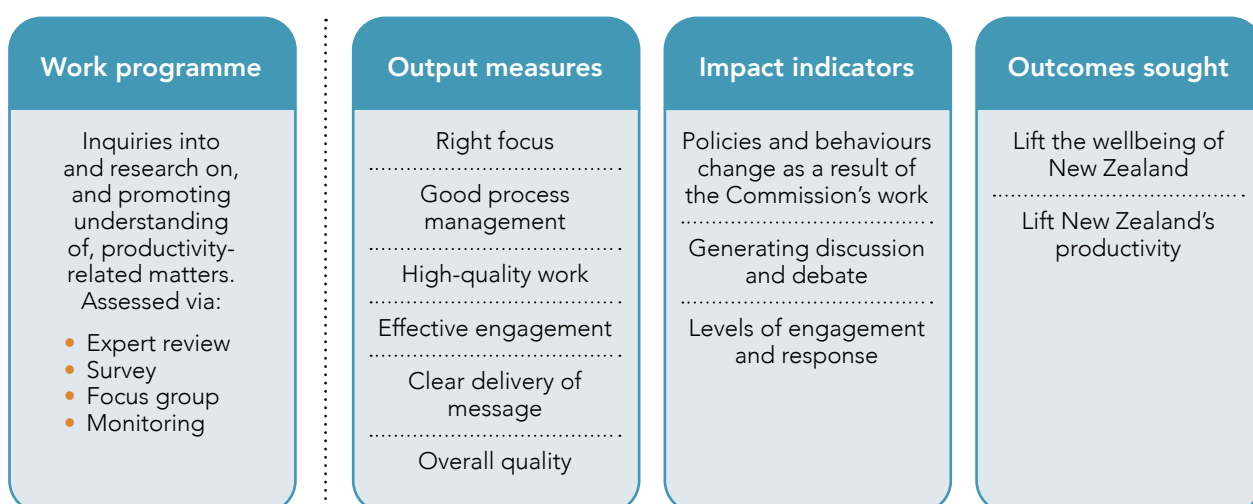
It is not enough for the Commission to simply produce reports. The analysis and commentary in our reports should be disseminated, understood and used to influence policy and behaviours so that we achieve our desired impact, in the long-term, of improving productivity.

It is within this context, that we look at the impact of our work across the following three performance indicators:

- **Levels of engagement with, and responses to, our work.** We particularly look at feedback indicating that our work plays a role in increasing the quality of analysis and advice overall on the topics of, and issues involved in, our work.
- **Discussion and debate is generated from our work.** We would like to see increased and wide-ranging discussion and debate by diverse voices. Our reporting looks at evidence of our work being used by influencers, particularly those providing commentary on, or input into, policy and how and where our work is cited in those discussions.
- **Policies and behaviours change as a result of our work.** We believe that a greater understanding of our work will see a better uptake and understanding of our recommendations. This in turn will contribute to better decision-making on policies and programmes that can improve productivity and wellbeing.

Given the above, our approach to performance measurement can be summarised as follows:

OUR APPROACH TO PERFORMANCE MEASUREMENT



Our performance this year

Reporting on our outcomes

Lifting the wellbeing of New Zealanders and lifting New Zealand's productivity

Achieving policy impact and progress on New Zealand's productivity and wellbeing performance may only emerge over long timeframes. To report on our strategic outcomes, we therefore focus on what analysis and advice we undertook that contributed to increasing the understanding of New Zealand's productivity challenges.

Our Economics & Research team's outputs were unfortunately scaled back again this year, due to budgetary constraints. This meant that our research programme primarily focused on supporting our inquiry work, rather than on independent research into New Zealand's productivity challenges. To address this, we submitted a 2021 Budget bid and were successful in achieving partial funding. We are now in the process of rebuilding the capability and capacity in our Economics & Research function.

Our research this year focused on deepening our understanding of key issues for our frontier firms inquiry. Fifteen research papers were released. Five publications were by researchers at the Commission and ten by contracted researchers: BRG Institute, Deloitte, Motu, NZIER, New Zealand Work Research Institute, Mill & Millin, New Zealand Trade & Enterprise, Sense Partners and TDB Advisory. These papers explored firm-level capabilities, the characteristics of New Zealand's most productive firms, migration and frontier firms, exporting challenges, firm dynamics, Māori frontier firms and the dairy industry.

Aside from our inquiry-focused research, the Commission substantially updated the content, readability and design of our *Productivity by the numbers* benchmarking publication. The update included two additional aspects - an examination of the two-way relationship between productivity and wellbeing and a deep-dive into the historical context for the productivity discussion in New Zealand. The publication generated substantial media coverage, including on The AM Show (TV3), Seven Sharp (TVNZ) and 1 News (TVNZ).

The Commission also released a research note on *A cost benefit analysis of 5 extra days at Covid-19 alert level 4*. This note brought together estimates of health and economic costs into one model. It was the result of conversations between Treasury officials and Commission staff about approaches to evaluating options for responding to the Covid-19 crisis. It was intended to be an internal document, but was released under the Official Information Act. The note was subsequently published in New Zealand Economic Papers, a peer reviewed journal.

Examples of our work and work we commissioned on ways to lift New Zealand's productivity and wellbeing

Firm dynamics

We commissioned Sense Partners to assess the state of knowledge about firm dynamics in New Zealand. Their paper [*Firm dynamics and productivity growth*](#) recommends that research shifts from mostly descriptive analysis to models of how firms operate in practice, to provide greater insight into why firms grow, how firm performance affects aggregate productivity growth, and what role policy can play in improving productivity growth.

Governance

The Commission investigated the role of corporate governance in lifting the performance of New Zealand firms. Our research [*New Zealand boards and frontier firms*](#) found that boards with the right mix of skills and experience can help raise the ambition and sophistication of firms. They can help firms weather the storms, and overcome the challenges of a small, isolated New Zealand economy.

Migration policy and frontier firms

Research by the New Zealand Institute of Economic Research for the Commission explored the role that migration policy could play in encouraging innovation and technology adoption among frontier and other firms. The authors found that migrants can probably assist some New Zealand firms to reach the global productivity frontier and current policy that emphasises skilled migration supports this. Yet policy settings, in also allowing many New Zealand firms access to low cost foreign labour, are likely to be inhibiting some firms achieving higher productivity via innovation and investment in technology.

Māori frontier firms

Research from the New Zealand Work Research Institute for the Commission looked at the factors affecting the performance of Māori frontier firms. The findings suggest that the best-performing Māori firms have strong capacity across a range of organisational factors, including the right people, management, relationships, HR processes and cultural capital. Top Māori firms are able to combine and leverage

these factors to gain success over their competitors. Having both the capabilities and processes to do this provides a buffering effect against hostile industry forces.

Frontier firms

The Commission conducted a [*benchmarking study*](#) to compare the performance of New Zealand's frontier firms to those in other small advanced economies, using novel cross-country microdata from CompNet. The results showed that New Zealand's frontier firms have comparatively low productivity levels and they are not benefiting from the diffusion of technologies. There was also evidence of labour misallocation. Counterfactual analysis illustrated that improving both technology diffusion from abroad toward New Zealand's frontier firms, and labour allocation across firms within New Zealand would see sizable productivity gains in New Zealand.

[*Research conducted by Mill & Millin*](#) explored the opportunities and challenges facing Māori businesses to innovate, grow and lift productivity. It found that Māori frontier firms are able to leverage features of their business to create opportunities for innovation and growth.

Innovation policy

The Commission conducted research to understand what lessons New Zealand can take from other small advanced economies' innovation policies. The lessons from [*our research*](#) included using high-level multistakeholder governance to choose the areas of focus and develop and oversee the implementation of strategy; devolving governance of policy implementation in the chosen areas of focus to independent multistakeholder bodies; and the importance of the government and other participants marshalling sufficiently large and enduring resources to "shift the dial" on the outcomes sought.

Reporting on our impact indicators

Impact indicator 1: Policies and behaviours change as a result of our work

The most direct measure of the Commission's impact is the proportion of our inquiry recommendations that are implemented by the Government. The Government is under no obligation to implement Commission recommendations nor to respond to our reports. However, in practice and in most cases, the Government has issued formal responses to our inquiry reports, specifying which recommendations it agrees with and will implement.

It would be unrealistic and probably undesirable to expect all inquiry recommendations be accepted. As an independent organisation with a strong focus on the public interest, the Commission should be expected to push the boundaries on complex issues. Done well, our inquiry reports should spark a recalibration of thinking within relevant agencies and other stakeholders. The Commission wants to put difficult issues on the agenda and encourage discussion and action on topics that other agencies consider too sensitive. The Commission has and will continue to test ideas and challenge the status quo in the interests of improvement. Our focus is on providing the best advice, rather than the most palatable.

The Commission has now completed 15 inquiries, with final reports that contained a total of 620 policy recommendations. Overall, the Government has formally responded to 12 out of our 15 inquiries, with approximately three-quarters of the recommendations being accepted in full or in principle/partly agreed. There has been no formal response yet from the Government to this year's completed inquiry into New Zealand's frontier firms.

While the number of recommendations agreed and implemented is one measure of impact, influence may also be seen in more subtle ways. Our reports often inspire ideas, analytical techniques or debate. We are aware of, without being able to specifically measure, the extent of such influence. There is also an extended lag between our work in some fields and the emergence or enactment of policy ideas that can be sourced in inquiry reports of years earlier.

Examples of our recommendations being explored, agreed, and implemented during the year

Climate change

As per recommendations in the Commission's 2018 Low-emissions economy report, the Government introduced:

- A Climate Disclosure Bill to make climate-related disclosures mandatory for publicly listed companies and large insurers, banks, non-bank deposit takers and investment managers.
- An update to the process for benefit-cost analyses for The Budget requiring a shadow carbon price for certain bids to account for the climate impacts of new policies.
- A rebate for buyers of electric and other low-emitting vehicles and a levy on high-emitting vehicles.

Stats NZ found our recommendations to be influential in a publication which estimated New Zealand greenhouse gas emissions on a consumption basis (rather than on the standard production basis):

"Without the ProdCom's recommendations this wouldn't have happened! As alluded to in the low-emissions economy report, the trade impacts are incredibly significant for understanding NZ's emissions. Really good to see that in the data now."
Senior design analyst, Stats NZ

Resource management

The Commission's 2017 Better urban planning report recommended many of the changes to the Resource Management Act (RMA), and the adoption of regional spatial planning for the Randerson report, which the Government is now using as its blueprint for its major reform of the RMA.

Health research

New Zealanders for Health Research used Section 10.5 and recommendation 10.6 of our frontier firms inquiry report in their Case for embedding health research as an essential component of New Zealand's reformed health and disability system (September 2021).

Technological change and the future of work

As per recommendations in the Commission's 2020 Technological change and future of work inquiry:

- The New Zealand Qualifications Authority updated its micro-credential approval process to enable 'stacking' towards qualifications.
- The Government announced updates to The Education and Training Act 2020 for more flexible education and training options. This included allowing Workforce Development Councils to develop micro-credentials, replacing Training Schemes with micro-credentials, and formally including micro-credentials on the New Zealand Qualifications Framework.
- The Government is working to design an unemployment insurance scheme. A policy proposal for consultation is expected later this year.

Three waters reform

In July 2020, the Government launched the Three Waters Reform Programme to reform local government three waters service delivery arrangements.

In its 2019 Local government funding and financing report, the Commission found that fundamental reform was required. It agreed with the Government's decision to set up a water quality regulator to strictly enforce health and environmental standards. But the Commission felt it was better to allow local councils, incentivised by the necessity to meet the quality standards, to work individually or through shared entities to find the most effective way forward having regard to local circumstances. This differs from the Government's proposed reform to place all water assets and services into the hands of four large regional entities that together cover the whole country.

Infrastructure funding and financing

The Government passed legislation establishing a new tool to enable infrastructure for housing and urban development (July 2020). This tool, a Special Purpose [financial] Vehicle (SPV), enables councils and developers to work together and raise funds for essential infrastructure for new housing supply. The debt is assigned to future property owners and not to the council, thereby circumventing council debt limits in fast-growing cities such as Auckland.

The Commission, in both its *Better Urban Planning* and *Local Government Funding and Financing* inquiries identified debt limits as a serious barrier in some important council areas and it endorsed the concept of SPVs as one way to tackle them.

Competition policy

The Government introduced an amendment to reform section 36 of the Commerce Act to prevent the misuse of market power (March 2021). As MP for Hamilton West, Dr Gaurav Sharma, noted:

"In May 2014, the Productivity Commission published a report called Boosting Productivity in the Services Sector at the request of the then National Government... I'm a bit surprised that it's taken so long – between 1986 and 2014 – for this to happen, but in its report the Productivity Commission concluded, amongst other things, that section 36 of the Act should be reviewed."

The Commission looks for evidence that our work is increasing understanding of productivity-related matters. We consider this a precursor to better uptake and understanding of our recommendations that will ultimately lead to better decision-making on the policies and programmes that could lead to improved productivity and wellbeing. We mainly look for this evidence via the independent evaluation

of our work (via participant surveys, independent expert reviews and focus groups), but also by observing data around our connection and communication with audiences interested in our work.

The following examples draw on the independent evaluation of our frontier firms inquiry.

Impact indicator 2: Discussion and debate is generated from our work

Examples of where our work increased understanding of productivity-related matters

Climate change

80% of survey participants for our New Zealand frontier firms inquiry considered that the inquiry had increased their understanding 'a little' or 'a lot' of the critical role of frontier firms in national productivity and wellbeing.

80% of survey participants also considered that the inquiry had increased their understanding 'a little' or 'a lot' of the possible policy options and approaches for improving New Zealand's productivity.

Where our work generates discussion and debate we are interested to see the diversity of voices in that debate, how our work is being used by people (influencers), particularly

those providing commentary on, or input into, policy. We look at how and where our work is cited in Parliament, by academics, industry-commentators and the media.

Impact indicator 3: Levels of engagement with, and responses to, our work

Examples of our work generating discussion and debate, including in the media

The Commission's work continued to be referenced in academic reports, for example:

- There were multiple references to our reports in the evidence reports for the Climate Change Commission's 2021 Draft Advice to Government for Consultation (see Ch16 and Ch17).
- The OECD's paper *Funding and financing of local government public investment* contained eight references to the Commission's *Local government funding and financing* report.
- IBM's discussion paper *Let's rethink how the world works* referenced our *Technological change and future of work inquiry* and recommendations on making training more flexible and accessible.
- The Royal Society of New Zealand's report on *The Research Workforce Of Aotearoa New Zealand* and the Ministry of Business, Innovation & Employment's note on the *Labour market impacts of technology change* both referenced our *Technological change and future of work inquiry*.

In Parliament, the Commission and our work were mentioned 21 times in speeches and questions.

In the media, the Commission was mentioned in 815 items throughout the year (not including duplicate coverage in regional papers). The top five sources were New Zealand Herald, then Stuff, National Business Review, Radio New Zealand and Newsroom.

Our highest levels of media coverage were generated from the release of the frontier firms final report with 58 news items (in the two weeks following its release on 20 April 2021), including on Waatea News and Māori TV. Coverage tended to be favourable or

neutral ie, without expressing a favourable or unfavourable view. Where there were negative reports, these centred around our work on migration and the Regional Seasonal Employer scheme.

Over the course of the frontier firms inquiry, we submitted 12 opinion-editorials to help promote and raise awareness of our work to a wide audience. They were published in *interest.co.nz* (4), *National Business Review* (3), *New Zealand Herald* (3), *Newsroom* (1) and *Stuff* (1).

Social media helped us to generate discussion and debate around our frontier firms work. For example, a post about David Skilling's report on Twitter reached over 3 000 people and generated 76 engagements (ie, likes, re-tweets, replies). Bernard Hickey (28 000 Twitter followers) tweeted one of our graphs as his chart of the day and it generated over 420 engagements.

In August 2020, the Commission's release of a research note on *A cost benefit analysis of 5 extra days at COVID-19 alert level 4* (after an Official Information Act request from Newshub) generated significant discussion and debate on social media and in the news with 13 items of news coverage (in the two weeks after its release). Prof. Shaun Hendy, who led the modelling of the virus' spread, publicly contested our analysis arguing it failed to take proper account of aspects of the virus' spread and therefore the risk that leaving lockdown posed. However, others welcomed an independent transparent cost-benefit analysis arguing it was lacking in an assessment of the different policy responses and in information for the public.

In May 2021, the Commission's release of *Productivity by the numbers* generated significant media coverage. In the two weeks following its release there were 36 news items across print, broadcast and internet media sources, including on The AM Show (Three), Seven Sharp (TVNZ) and 1 News (TVNZ). It continued to be picked up after this period and was used as a hook for other stories eg, on housing, technology investment and

SMEs. Bernard Hickey endorsed the report's presentation in The Kākā: *"It's a great restatement of the problem in one fresh package."*

Our impact reporting is also interested in the levels of engagement with, and responses to, our work – particularly in regard to feedback indicating that our work

plays a role in increasing the overall quality of analysis and advice on productivity issues from our work.

Examples of where our work improved analysis and advice

For the *New Zealand frontier firms* inquiry, survey data indicated that 66% of inquiry participants agreed that the inquiry helped set or lift the standard in New Zealand for high quality analysis and advice on improving the development, performance and contribution of frontier firms. Comments included:

"It was a mammoth task and the scope of the research and analysis was thorough. There are a lot of findings and hooks upon which to hang further work and advice. Overall, well done."

"The report is a good first step and has laid the foundation for future actions and discussions on how to improve. It would be good to erect a committee for further actions."

The independent expert review of the frontier firms inquiry found that:

"Overall, the final inquiry report is generally an exemplar of quality analysis and advice prepared within a tight timeframe and in extraordinary circumstances".

"There are indications from review discussions with officials that the inquiry's analysis, including additional published work, will likely impact policy thinking and future advice about innovation/research and firm internationalisation."

We are also interested in understanding how our work is used over time and its relevance as a resource for others.

Examples of the quality of our analysis and advice and how our work will act as a future resource and reference

Survey data found that 81% of respondents would use the *New Zealand frontier firms* final report as a resource and reference in the future. Survey comments on the quality of the analysis included:

“Comprehensive analysis, progressive focus on opportunities with Te Ao Māori and definitions of productivity.”

“The Commission has made a substantive change to the Final Report over and above its Draft Report. This shows a genuine commitment to quality and excellence. The Commission was prepared to hire experts to address skills and capability gaps in the production of the advice. This indicates an organisational culture that is open. We need more organisations like this in Aotearoa New Zealand.”

The independent expert review of this inquiry found that the final report at least achieves, if not exceeds, high standards

for quality policy advice.¹ Discussions with key players and the undertaking of further work (for example, New Zealand Trade and Enterprise beginning to look at the way it measures the performance of services to firms,) suggest that the final report and supporting analysis will be a resource and reference as further policy development is undertaken and decisions made.

The expert reviewer found that officials and the Institute of Directors are using the report and other outputs to consider the future direction of innovation/research, industry and internationalisation policy, practice and performance measurement in relation to frontier firms. The data, analysis and findings are particularly important for this work. By contrast, the expert reviewer noted that the inquiry recommendations do not necessarily outline a prescription for future policy, because they lack specificity and suggest further review.

¹ See “Developing papers with the Policy Quality Framework: Checklist for reviewing papers in development”, Policy Project, Department of the Prime Minister and Cabinet, June 2019, see <https://dpmc.govt.nz/sites/default/files/2019-06/developing-papers-with-policy-quality-framework-checklist.pdf>.

We also consider what the independent evaluation of our inquiry says about the ability of our work to generate discussion and debate...

Examples of the ability of our work to generate discussion and influence debate (as identified by independent experts)

The independent expert review of the New Zealand frontier firms inquiry noted that:

"There is no doubt about the inquiry generating discussion and debate about frontier firms and the role of productivity for New Zealander's wellbeing more generally."

In the focus groups, it was generally felt that the frontier firms inquiry had lifted the level of debate within government, the recommendations would be looked upon favourably, albeit a number of the recommendations were reinforcing existing work streams. However, nearly all focus group participants felt the recommendations were not as ambitious as they might have been.

Those commenting on the Māori firms aspect of the inquiry were particularly positive. For example:

"The Productivity Commission report has been identified in government as one of the key drivers of policy going forward. We will be using the material produced to strengthen future work in this area."

"A number of the recommendations are already in play, and the Commission's support will help to nudge the government's work programme in the right direction. While the recommendations are expected to make a positive difference, this will not happen quickly."

Some focus groups participants were not so positive, for example one commented:

"Frontier firms is a more academic, niche and difficult topic. The inquiry failed to kick start the debate".

... and monitor how our work reaches and engages audiences through our communications.

Examples of our audience reach and engagement

This year the Commission was mentioned in 815 news items (not including duplicate coverage in regional papers). The top five sources of coverage were NZ Herald, then Stuff, National Business Review, Radio New Zealand Audio and Newsroom. We also had 9 opinion-editorials published in: National Business Review (3), NZ Herald (3), Interest (1), Newsroom (1) and Stuff (1).

Our stakeholder database continued to grow and includes 4 919 subscribers, up 11% from last year. We sent out 10 emails across the year to subscribers, achieving a 32.9% open rate, which compares well to a 28.77% average open rate for Government email marketing campaigns².

The Commission built its social media presence with posts on our inquiry and research work. On LinkedIn our followers increased by 31% this year (to 1 865 followers) and by 13% on Twitter (to 2 950 followers). As an example, tweets on the day of release of our *Productivity by the numbers* publication reached over 7 000 people and achieved 200

engagements (ie, likes, re-tweets, replies).

As part of our work on Covid-19, we set up a ***Pandemic-economics blog*** to share perspectives and generate discussion on policy responses. Over a 5-month period, 26 posts generated 16 500 unique views. The most popular blog post was on lockdown and the effect on children's learning and wellbeing, generating 6 340 unique views. Our blog was also picked up by journalists, for example with our posts on CovidCard being covered by Radio New Zealand and Newsroom.

The Commission released a new video on *What is productivity and why does it matter?* to help raise public awareness and understanding of productivity. In the video our Commissioner, Gail Pacheco, explains productivity in less than two minutes. It has generated over 1 700 views and is a useful resource to explain productivity to a wide audience.

Our work continues to generate significant public interest and engagement. This year we accepted numerous invitations to speak to hundreds of people at events about our inquiry work, as well as productivity more generally. This shows widespread interest in raising New Zealand's productivity and wellbeing, and in the Commission's role.

²<https://mailchimp.com/resources/email-marketing-benchmarks/>

Examples of engaging with a range of audiences through our speaking programme

Topic	Event/presentation
Frontier firms	<ul style="list-style-type: none"> • Webinar for MBIE – How can we help NZ firms reach the productivity frontier? (101 registered, 54 attended) • A multi-agency workshop (with MBIE, Callaghan Innovation, NZTE, TPK and Treasury) – How best to operate focused innovation policy? • ProdCom webinar – How can we help NZ firms reach the productivity frontier? (110 registered, 62 attended) • Massey University Executive MBA class presentation – How can we help Kiwi firms reach the productivity frontier? • Take on board breakfast for female Australasian Directors – How boards with the right mix of skills and experience can help build high-performing firms? • MaDE2020 Conference: Synergies in New Zealand Manufacturing, Design and Entrepreneurship • Export NZ webinar (with 10 of New Zealand's leading exporters) – How can New Zealand build more world class exporting firms? • Treasury Guest Lecture – Unlocking New Zealand's productivity potential: the key role of frontier firms. Included a panel discussion between Treasury, MBIE and BRG Institute (100 attended in person, 75 online) • OECD Global Forum on Productivity – Modern industrial policy: time for a new paradigm? • Briefing and feedback with VUW Institute for Governance and Policy Studies macroeconomics discussion group, senior associates and VUW staff. • For Longitudinal Business Database researchers – Do workers share in firm success? Pass-through estimates for New Zealand by Corey Allan from MBIE and David Maré from Motu. • For Longitudinal Business Database researchers – Measuring commute patterns over time: using administrative data to identify where employees live and work by Richard Fabling and David Maré from Motu
Productivity and wellbeing	<ul style="list-style-type: none"> • Motu webinar – Global productivity: trends, drivers and policies (163 people registered, 85 attended) • BDO leadership group series – Redefining productivity as a catalyst for change (140 attended) • GEN lunchtime talk – Why productivity matters for New Zealand • KangaNews-Westpac New Zealand Sustainable Finance Summit – Building New Zealand's future economy – what will it look like? • U3A Wellington – Economics, productivity and wellbeing • IPANZ – Productivity and the public sector • BDO Directors – Productivity and wellbeing • Cooperative Business Leaders Forum – Productivity and wellbeing • Creative HQ Breakfast – Productivity and wellbeing • Quigg Partners CEO luncheon – Productivity and wellbeing • BusinessNZ – Productivity and wellbeing • EDNZ Annual hui – Productivity, wellbeing and development • Te Hono Māori Future and Tech Summit – Productivity and Māori
Technological change and the future of work	<ul style="list-style-type: none"> • Techweek2020 webinar – Will machines replace humans in the future of work? (154 registered, 60 attended) • Property Council – The future workforce: the current and likely future impacts of technological change on the future of work, the workforce and productivity (70 attended) • Primary Industry Capability Alliance, Research & Insights Forum 2021 – Workplace safety and the future of work in New Zealand

Various	<ul style="list-style-type: none"> • Women in Leadership Summit – Advancing leadership opportunities for women from minority backgrounds • Motu public policy research seminar – Minimum wages in New Zealand: Sharp tool or blunt instrument? • Inland Revenue (attended by officials from Treasury and MSD) – Income protection gap • ReBuilding Nations Symposium - How to improve productivity and reduce transport emissions?
---------	--

Our current and future inquiries into productivity

Two new inquiries were assigned by the Minister of Finance shortly after the completion of our frontier firms inquiry in April 2021. The Commission is working on the following two inquiries in 2021-22:

1. Immigration settings for New Zealand’s long-term prosperity and wellbeing

Following receipt of the terms of reference in May 2021, the Commission released an issues paper in June 2021 to invite public input. Our preliminary findings and recommendations were released in November 2021 and our final report is due in April 2022.

2. Economic inclusion and social mobility

In June 2021, the Government asked the Commission to scope a new inquiry into the drivers of persistent disadvantage within people’s lifetimes and across generations. This is a new approach and the first time the Government has asked us to prepare the terms of reference (ToR) for an inquiry. The Commission has submitted the ToR to Cabinet in November 2021 and, subject to approval, the Commission will then have 12 months to conduct the inquiry and present our findings and recommendations to Government.

2020-21 Statement of performance

Our approach

To measure our performance, we use a strongly evaluative approach as we believe this best aligns with the nature of our work. For our research and inquiries, we collect qualitative and quantitative information through independent expert evaluations, participant surveys and focus groups or interviews.

Our performance is measured against three broad impact indicators:

- Policies and behaviours change as a result of our work;
- Discussion and debate is generated from our work; and
- Levels of engagement, and responses to, our work.

We then measure our outputs against the following six categories:

- Right focus;
- Good process management;
- High-quality work;
- Effective engagement;
- Clear delivery of message; and
- Overall quality.

Assessment of the frontier firms inquiry process and report

This year we completed one inquiry: *New Zealand firms: Reaching for the frontier* (April 2021). This section details the performance evaluation for this inquiry against the above impact indicators and output measures.

The participant surveys were conducted using SurveyMonkey online survey software with responses collected anonymously. There were 105 respondents to the online survey out of 459 invitations, making a 23% response rate with an 8% margin of error.

The survey responses and evaluation reports (from the expert review and focus groups) are available on our website at: www.productivity.govt.nz/inquiries/frontier-firms/

Impact of Covid-19

The Commission originally arranged three focus groups (including one Māori) to get the views of a range of stakeholders on our performance. However, Wellington went into Alert Level 2 lockdown on the day of the scheduled sessions, impacting face-to-face attendance and so the sessions were held online and via one-on-one telephone interviews instead.

Note: Our Economics & Research function was not evaluated this year as it was evaluated last year (and evaluation is undertaken every other year).

Assessment of the frontier firms inquiry process and report

Impact measured: Policies and behaviours change as a result of the Commission's work

Assessment method: Survey results, independent expert review and focus group report	
Commission recommendations agreed, implemented and explored further	
<p>How many recommendations were agreed and implemented?</p> <p>How fully were the recommendations implemented or actively explored by the relevant policy makers?</p>	<p>There has been no formal response yet from the Government, so we have no information on recommendations agreed or implemented.</p>
Understanding of productivity-related matters increases	
Survey results:	<ul style="list-style-type: none"> 80% of participants considered the inquiry had increased their understanding of <i>"the critical role of frontier firms in national productivity and wellbeing"</i> at least a little. 85% considered that the inquiry had increased their understanding of the <i>"opportunities and challenges for Māori frontier firms"</i> at least a little. 74% considered that the inquiry had increased their understanding of <i>"the importance of innovation ecosystems"</i> at least a little. 80% considered that the inquiry had increased their understanding of <i>"possible policy options and approaches for improving NZ's productivity"</i> at least a little.
The expert reviewer (Guy Beatson) noted:	<p>The initial indications are that policy was already moving to a degree in a direction consistent with the final report findings. While attribution is difficult, the Commission's new immigration inquiry could be seen to result from the frontier firms recommendation (R 9.5) to review New Zealand's migration policy.</p> <p>It is less clear, beyond business group endorsement of the findings, whether the findings will see a change in firm capabilities, resource allocation, or significantly more focus in innovation, industry and internationalisation policy.</p>
The focus group facilitator (David Pickens) noted:	<p>There were divergent views on the impact the inquiry would have. It was noticeable that those with a stronger line of sight into government were more positive about its likely impact.</p> <p>Those commenting on the Māori firms aspect were particularly positive:</p> <p><i>"The Productivity Commission report has been identified in government as one of the key drivers of policy going forward. We will be using the material produced to strengthen future work in this area."</i></p> <p><i>"A number of the recommendations are already in play, and the Commission's support will help to nudge the government's work programme in the right direction. While the recommendations are expected to make a positive difference, this will not happen quickly."</i></p>

[NB: Survey results are based on a sample of 105 respondents.]

Assessment of the frontier firms inquiry process and report

Impact measured: The Commission's work generates discussion and debate

Assessment method: Monitoring of responses to, and feedback on, the inquiry	
Third party commentary and reporting in the media	
<p>Nature of comment (eg, favourable, unfavourable, neutral)</p> <p>Who commented</p> <p>How many people/groups commented</p>	<p>Media monitoring of responses to, and feedback on, the inquiry's final report in the two weeks following its public release on 20 April 2021 identified:</p> <ul style="list-style-type: none"> • 58 news items across print, broadcast, and internet media sources: 14% presented a favourable view of the report and its findings eg, New Zealanders for Health Research described it as a <i>"big win for New Zealand health research"</i>. 3% were less favourable eg, Cities and Regions NZ felt the report was <i>"off track"</i> and <i>"spatially blind"</i> and The Icehouse felt the report <i>"glosses over the role of small-to-medium enterprises"</i>. 83% of the items were neutral, ie, the findings and recommendations were highlighted without expressing a favourable or unfavourable view. • 26 404 Twitter impressions (ie, the number of times content related to the report was displayed) and 544 engagements (ie, likes, retweets, replies). • 5 914 LinkedIn impressions (ie, the number of times content related to the report was displayed) and 308 engagements (ie, likes, retweets, replies).
Citing of the Commission's work in Parliament, Select Committees, academic or other literature	
Work cited by MPs in Parliament, Select Committees, Ministers, academic or other literature	The inquiry report was cited by Nicola Grigg (National) in Parliament at the Regional Comprehensive Economic Partnership Legislation Bill and International Treaty Examination of the RCEP Agreement (18 May 2021). She commented how achieving traction and growth by frontier firms is <i>"hard-fought"</i> and <i>"this House should be under no illusion it's been done easily"</i> . Nicola also quoted the findings of our commissioned NZTE research on the major challenges for exporters. James McDowall (ACT) mentioned the report's finding on immigration's impact on technological innovation in Parliament at the Second Reading of the Immigration (Covid-19 response) Amendment Bill (4 May 2021).
The expert reviewer (Guy Beatson) noted:	There is no doubt that the inquiry generated discussion and debate about frontier firms and the role of productivity for New Zealanders' wellbeing more generally. Some of that discussion is less than helpful, given the nature of the commentary on various Commission op-ed pieces [in interest.co.nz]. Of concern in these comments is questioning around the Commission's <i>"real world"</i> credentials. In that context, the Productivity Commission should consider the authors of op-eds and other material and the extent to which other players (eg, leading business people) might be enlisted to provide or supplement the commentary.
The focus group facilitator (David Pickens) noted:	It was generally felt the inquiry had lifted the level of debate within government, the recommendations would be looked upon favourably, albeit a number of the recommendations were reinforcing existing work streams. Yet, the recommendations were not as ambitious as they might have been.

Assessment of the frontier firms inquiry process and report

Impact measured: Levels of engagement and response with the Commission's work increase

Assessment method: Survey results, independent expert review and focus group report	
Productivity analysis and advice improves	
Survey results:	<ul style="list-style-type: none"> 65% of inquiry participants agreed, or strongly agreed, that <i>"the inquiry was sufficiently bold in reaching its findings and recommendations"</i>. 66% of inquiry participants agreed, or strongly agreed, that <i>"the inquiry has helped set or lift the standard in NZ for high quality analysis and advice on improving the development, performance and contribution of frontier firms"</i>. 81% agreed, or strongly agreed, that <i>"I will use the inquiry report as a resource and reference in the future"</i>. <p>One person commented: <i>"The report is a good first step and has laid the foundation for future actions and discussions on how to improve. It would be good to erect a committee for further actions."</i></p>
Quality of analysis and advice in the inquiry and if inquiry reports will serve as a resource and reference in the future	
The expert reviewer (Guy Beatson) noted:	<p>The final report is generally an exemplar of quality analysis and advice prepared within a tight timeframe and in extraordinary circumstances.</p> <p>Discussions with key players and the undertaking of further work, for example, New Zealand Trade and Enterprise beginning to look at the way it measures the performance of services to firms, suggest that the final report and supporting analysis will be a resource and reference as further policy development is undertaken and decisions made. The data, analysis and findings are particularly important for this.</p> <p>By contrast, the recommendations do not necessarily outline a prescription for future policy because they lack specificity and suggest further Review. This will become clearer when the Government's response is developed and published.</p>
The focus group facilitator (David Pickens) noted:	<p>Some participants expressed concern at the quality of the data being used - that the productivity data for NZ firms did not capture their offshore activity.</p> <p>One person commented the Commission was <i>"... relying on shonky databases which didn't make sense. The Commission needs to talk to people in the real world, at the front line."</i> Another commented that the quantitative data on the Māori economy was not as robust as it needed to be.</p> <p>Interviewees differed on what lessons could be taken from the experience of so called comparable countries overseas. One felt greater caution was needed because of differences relating to access to large markets and transfer payments between EU countries, for example. Another felt more could have been learnt from how governments facilitate access to capital. Another felt overseas lessons on the importance of central government enabling (not leading) regional innovation clusters had been lost on the Commission.</p>

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered "Don't know" these responses were excluded from the results.]

Assessment of the frontier firms inquiry process and report

Output measured: Right focus

Assessment method: Survey results, independent expert review and focus group report	
Relevance and materiality of inquiry reports	
Survey results:	<ul style="list-style-type: none"> 69% agreed, or strongly agreed, that the inquiry report “focused on the issues most significant to the development, performance and contribution of NZ’s frontier firms”. 69% agreed, or strongly agreed, that the inquiry report “went into sufficient depth on the issues it covered”. <p>Comments included:</p> <p><i>“The report was long and spent too long outlining issues that have been relatively well traversed before.”</i></p> <p><i>“It is an excellent report. Potentially could have sampled a proportion of high productivity organisations against average productivity organisations and conducted an assessment of where they were at in terms of all aspects of business excellence to identify the differences.”</i></p> <p><i>“Totally failed to appreciate the tight geography around innovation & frontier firms. Failed to recognise that NZ has a Wellington-centric approach. Failed to draw on international evidence around regions.”</i></p>
The expert reviewer (Guy Beatson) noted:	<p>The final report and other material delivered all aspects of the Terms of Reference.</p> <p>The inquiry extended this analysis to the allocation of resources beyond frontier firms performance and the diffusion by them of technology to non-frontier firms.</p> <p>The inquiry delivered extensive additional outputs of relevance, including empirical and qualitative analysis.</p> <p>The policy and intervention recommendations can be implemented. They could, however, have been more specific, including the scope and nature of further reviews.</p>
The focus group facilitator (David Pickens) noted:	<p>Overall, views on the final report were positive:</p> <p><i>“It was a great piece of work – we’re super keen to get going!”</i></p> <p><i>“Overall, the final report was a very well researched and considered piece that moves our thinking and understanding forward.”</i></p> <p><i>“The final report was a high quality paper, practical with good insights.”</i></p> <p>The minority, however, felt differently:</p> <p><i>“There wasn’t enough thinking about the New Zealand of the future. There was no big vision. It was a missed opportunity. New Zealand is not being positioned to be brave enough.”</i></p> <p><i>“The report is not even incremental. It is reinforcing the status quo.”</i></p> <p><i>“It was a missed opportunity to get a significant rethink. I had hoped for something that would be transformative. It is not a report we will be referring back to.”</i></p>

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered “Don’t know” these responses were excluded from the results.]

Assessment of the frontier firms inquiry process and report

Output measured: Good process management

Assessment method: Monitoring of milestones, survey results, independent expert review and focus group report	
The extent to which inquiry issues papers, draft reports and final reports were delivered to schedule	
All external milestones communicated in the Commission's planning process are achieved:	The work programme was delivered on schedule with an issues paper in April 2020, draft report in December 2020 and final report in April 2021, as per the terms of reference.
Survey result:	81% of inquiry participants agreed or strongly agreed that <i>"overall, they were satisfied with the Commission's process for running the inquiry"</i> .
The expert reviewer (Guy Beatson) noted:	<p>Good process project management, supported by clear documentation, saw the final report delivered in the expected timeframe.</p> <p>The inquiry process and approach accommodated the constraints and limitations of the Covid-19 response well, although further consideration should have been given to the final report timing.</p> <p>The approach to project management would benefit from a greater risk management focus and independent project management quality assurance.</p>
The focus group facilitator (David Pickens) noted:	<p>Participants commented the process was better and more robust than their experiences with other parts of government. Typical comments included:</p> <p><i>"The process was really efficient. Enough time was provided and the Commission met their deadlines."</i></p> <p><i>"The inquiry was really useful overall. The process and structure were good and it hit what it needed to hit."</i></p> <p>A number commented on the greater use of Zoom saying it was more efficient, and supported its greater use going forward.</p> <p>Some suggested the final report might have benefited from <i>"a few iterations with stakeholders before the 'final reveal'"</i>. Another suggested a 'debate forum' prior to finalising the final report.</p> <p>One participant commented that while there was enough time for the inquiry, the issuing of the draft report pre-Christmas with a deadline for feedback of early February was <i>"not helpful"</i>.</p>

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered "Don't know" these responses were excluded from the results.]

Assessment of the frontier firms inquiry process and report

Output measured: High quality work

Assessment method: Survey results, independent expert review and focus group report	
Confidence in inquiry findings and recommendations	
Survey results:	<ul style="list-style-type: none"> 65% of inquiry participants considered the final report's "use of evidence and analysis of information" to be of good or excellent quality. 60% considered the final report's "findings and recommendations" to be of good or excellent quality. [Note also that 81% rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance measure.] 83% agreed, or strongly agreed, that the Commission's recommendations "follow logically from the analysis and findings". 70% agreed, or strongly agreed, that the Commission's recommendations "would, if implemented, materially improve the development, performance and contribution of NZ's frontier firms". <p>Comments included:</p> <p><i>"I feel like the report should have been more pointed, it felt like it wasn't quite sharp enough to create a sense of urgency."</i></p> <p><i>"Some of the recommendations aren't hugely insightful. In many ways confirm things people already know. More insight could come in how implementation should occur given the data they found - go out on a limb a bit more."</i></p>
The expert reviewer (Guy Beatson) noted:	<p>Overall, the final report at least achieves, if not exceeds, high standards for quality policy advice.³ The context is clear, although the climate change and natural resources/environmental management context could have been better reflected.</p> <p>The analysis uses clear analytical frameworks, including in the analysis of Māori firms, uses available empirical evidence well, and the research gained ethics approval. There are no surprises in the analysis, and it is a useful catalogue of the thinking about industry, innovation and internationalisation policy and performance. There are some gaps, however, concerning:</p> <ul style="list-style-type: none"> the Australia/New Zealand relationship; Māori frontier firms; environmental/ natural management policy (specifically regulated limit setting); and competition policy and regulation in New Zealand and small advanced economies. <p>The recommendations can be implemented, but are not tight enough and could have been more policy specific.</p>
The focus groups facilitator (David Pickens) noted:	<p>Many participants called for greater specificity in the inquiry recommendations. Yet, one person felt this could be a mistake. For example, policy agencies were often better placed to develop implementation options that met the Commission's policy objectives, which were also acceptable to Ministers.</p> <p>With respect to the Māori research, the Māori firms report⁴ in particular was commented upon favourably: <i>"It was useful, accessible, practical, making it real for people."</i></p>

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered "Don't know" these responses are excluded from the results.]

³ Developing papers with the Policy Quality Framework: Checklist for reviewing papers in development", Policy Project, Department of the Prime Minister and Cabinet, June 2019.

⁴ Mill and Millin, He Manukura. Insights from frontier Māori firms, 2021.

Assessment of the frontier firms inquiry process and report

Output measured: Effective engagement

	Assessment method: Survey results, independent expert review and focus group report
Perception of the quality of engagement by the Commission	
Survey results:	<ul style="list-style-type: none"> 70% of inquiry participants agreed, or strongly agreed, that the Commission “sourced all relevant research and information”. 69% agreed, or strongly agreed, that the Commission “engaged with the right people”. 81% agreed, or strongly agreed, that the Commission “engaged effectively and appropriately with Māori firms, organisations and individuals.” 88% of inquiry participants agreed, or strongly agreed, that during the inquiry “the Commission provided ample opportunity to participate”. 92% agreed, or strongly agreed, that “the Commission was approachable”. 77% agreed, or strongly agreed, that “the Commission understood their views”. <p>Comments included:</p> <p><i>“I really appreciated the effort that went into the Māori work. Inquisitive, reaching, asking and listening, then presenting back.”</i></p> <p><i>“I was very impressed by the breadth of the sources used and their integration into a coherent whole. The quality of engagement with the team I’m part of was also outstanding.”</i></p>
The expert reviewer (Guy Beatson) noted:	The inquiry engaged extensively with tangata whenua, stakeholders, industry/innovation policy experts and other researchers. There was sufficient time for responses on the issues paper. Submitters would have liked more time to comment on the draft report. This short timeframe left an impression, for some submitters, that the final report did not sufficiently take submitters’ perspectives into account.
The focus group facilitator (David Pickens) noted:	<p>Engagement with stakeholders and Māori was favourable:</p> <p><i>“The people were exceptional to deal with. We appreciated their willingness to engage, openness, and that they were prepared to cut through more formal channels.”</i></p> <p><i>“The people were of a high calibre – very smart. They engaged well at all levels, and were very collaborative, taking a strong partnership approach. In comparison other government agencies can be a bit patch protectionist.”</i></p> <p>In terms of Māori engagement, one commented that using specialist resources or ‘pathfinders’ had been the right approach. Another commented <i>“I’m not sure how they would have done it differently.”</i></p> <p>One participant felt it would be good for the Commission to make effective engagement with Maori a ‘business as usual’ outcome. This could involve some combination of building in-house expertise, bringing in specialist advice, as needed, and utilising existing networks.</p>
Engagement meetings held and submissions received:	The Commission received a total of 81 submissions and held over 100 engagement meetings with individuals, government and non-government organisations and firms throughout New Zealand.

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered “Don’t know” these responses are excluded from the results.]

Assessment of the frontier firms inquiry process and report

Output measured: Clear delivery of message

Assessment method: Survey results, independent expert review and focus group report	
Perception of how well inquiry work was communicated and presented	
Survey results:	<ul style="list-style-type: none"> • 88% agreed, or strongly agreed, that the “findings and recommendations were clear”. • 96% agreed, or strongly agreed, that the “style of writing and language used was clear”. • 85% agreed, or strongly agreed, that the “summary material provided was useful”. <p>Comments included:</p> <p><i>“Summaries across a few areas might be useful - govt works in silos, even if we try and join up so summaries across silos and commonalities across those silos could be useful - love Cut to the Chase Māori.”</i></p> <p><i>“The language needed to be more emotive and compelling.”</i></p> <p><i>“Very solid.”</i></p> <p><i>“The work of the Productivity Commission is vitally important, but you are far too dry and academic in your approach.”</i></p>
The expert reviewer (Guy Beatson) noted:	<p>The website and supporting material have the clearest messaging about the findings and recommendations.</p> <p>The Cut to the Chase summarise the final report well, but the key messages are less succinct and clear.</p> <p>The inquiry reports (draft and final) continue to be large documents and have significant repetition that needs addressing.</p> <p>The final report contained fewer recommendations than previous reports. However, care is needed to ensure these are sufficiently precise and direct.</p>
The focus group facilitator (David Pickens) noted:	<p>A number of participants felt the final report was too long.</p> <p><i>“While the final report was of a high quality, it did contain a lot of repetition. It could have perhaps been half the size.”</i></p> <p><i>“It would have been better to focus down on two or three things that will make a real difference rather than “boiling the ocean”. This would have made it easier to manage the messaging and reduced the risk of being distracted by small things.”</i></p> <p>One participant singled out the website as being good, another the A3 summary as being very helpful.</p>

[NB: Survey results are based on a sample of 105 respondents. Where respondents answered “Don’t know” these responses are excluded from the results.]

Assessment of the frontier firms inquiry process and report

Output measured: Overall quality

Assessment method: Survey results, independent expert review and focus group report	
Perception of the overall quality of the inquiry	
Survey results:	<ul style="list-style-type: none"> 57% of inquiry participants surveyed rated "the overall quality" of the inquiry as good or excellent. [Note also that 81% rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance measure.] <p>Comments included:</p> <p><i>"I had high expectations for the exercise and was underwhelmed by what was produced."</i></p> <p><i>"I would have like the opportunity to class it as somewhere between good and excellent because it was a lot better than good but not quite excellent."</i></p> <p><i>"Although weak, it represents a fair start. The process (other than the definition of the ToR, which lacked ambition in my view) was transparent and well managed."</i></p> <p><i>"Overall I think the inquiry went well. The challenge, as always for the Prod Com, is getting the policy recommendations implemented in a meaningful way."</i></p>
The expert reviewer (Guy Beatson) noted:	<p>Overall, the final report at least meets the standard expected of high-quality policy advice. The quality of the report reflects:</p> <ul style="list-style-type: none"> Good articulation of the international and local context within which New Zealand firms operate. A frontier firms framework developed by the OECD, supplemented by other relevant frameworks. Use of quantitative data from New Zealand (LBD) augmented by data from other small advanced economies (CompNet). Development of case studies in critical sectors of the economy to augment the quantitative analysis. Supplementing the inquiry reports with a wide range of analyses developed by people with significant expertise. More emphasis is needed on these as part of an inquiry "ecosystem" rather than focus overly on the final inquiry report.
The focus group facilitator's report (David Pickens) noted:	<p>The majority viewed the inquiry favourably. In particular, the Commission's staff, engagement and process drew almost universally positive comment. The sizable minority, however, expressed significant misgivings, particularly on the analysis, findings and recommendations. They complained the inquiry was a "missed opportunity", and a reinforcement of the status quo.</p> <p>The majority, however, were pleased with where the final report landed, viewing it as a useful contribution to the debate and a step towards better government decision making.</p> <p>Māori engagement and outputs were welcomed. Māori engagement was regarded as appropriate and of a high quality, benefiting the analysis, findings and recommendations; and promoting goodwill towards the Commission.</p>

[NB: Survey results are based on a sample of 105 respondents.]

2020–21 Financial performance summary

Summary of financial performance

Our full financial statements and accompanying notes are set out later in this report. We made a \$978 000 operating surplus, as summarised in the table below.

	Actual 2021 \$000	Budget 2021 \$000	Actual 2020 \$000
Financial performance			
Revenue			
Revenue from the Crown	5 030	5 030	5 030
All other revenue	141	2	103
<i>Total revenue</i>	<i>5 171</i>	<i>5 032</i>	<i>5 133</i>
Expenses			
Personnel costs	3 050	3 558	3 405
All other expenses	1 143	1 474	1 593
<i>Total expenses</i>	<i>4 193</i>	<i>5 032</i>	<i>4 998</i>
Net surplus	978	-	135
Financial position			
Assets			
Total current assets	2 444	1 483	1 534
Total non-current assets	100	21	87
<i>Total assets</i>	<i>2 544</i>	<i>1 504</i>	<i>1 621</i>
Liabilities			
<i>Total current liabilities</i>	<i>373</i>	<i>441</i>	<i>422</i>
Total non-current liabilities	105	110	111
<i>Total liabilities</i>	<i>478</i>	<i>551</i>	<i>533</i>
Total equity	2 066	953	1 088

Output funding and costs

The Commission's summary of output funding and costs include the direct and indirect costs associated with delivering our core services: inquiries, research and promoting understanding. Dividing our funding in this way allows the Government to determine, at a high level, the mix of our work.

	Actual 2021 \$000	Budget 2021 \$000	Actual 2020 \$000
Inquiries			
Revenue from the Crown*	4 401	4 401	4 401
Other revenue	123	2	90
Total revenue	4 524	4 403	4 491
Expenses	(3 678)	(4 403)	(4 432)
Net surplus/(deficit)	846	-	59
Research and promoting understanding			
Revenue from the Crown*	629	629	629
Other revenue	18	-	13
Total revenue	647	629	642
Expenses	(515)	(629)	(566)
Net surplus/(deficit)	132	-	76
Total outputs			
Revenue from the Crown*	5 030	5 030	5 030
Other revenue	141	2	10
Total revenue	5 171	5 032	5 133
Expenses	(4 193)	(5 032)	(4 998)
Net surplus/(deficit)	978	-	135

* Revenue from the Crown represents the appropriation received by the Commission and equals the Government's actual expenses incurred in relation to the appropriation, which is a required disclosure from the Public Finance Act.

End of year reporting requirements as per the Estimates of Appropriations 2020–21 (Finance and Government Administration Sector)

The Commission's appropriation is limited to the undertaking of inquiries into and research on, and promoting public understanding of, productivity-related matters in accordance with the New Zealand Productivity Commission Act 2010.

Assessment of performance	2020–21 Budget standard	Actual 2020–21
Inquiry participants' feedback (via survey) on whether the inquiry helped set or lift the standard in New Zealand for high quality analysis and advice on the topic.	Maintained or improved	Achieved - As reported in the 2020-21 Statement of performance impact measure "Levels of engagement and response with the Commission's work increase".
Inquiry participants' feedback (via survey) on whether the inquiry has increased their understanding of the topic.	Maintained or improved	Achieved - As reported in the 2020-21 Statement of performance impact measure "Policies and behaviours changes as a result of the Commission's work".
Successful completion of an annual benchmarking exercise to track New Zealand's productivity performance.	Maintained or improved	Achieved - As reported in the 2020-21 Statement of performance impact measure "Examples of our work generating discussion and debate, including in the media".
Successful completion of a biannual benchmarking exercise to track New Zealand's productivity performance.	New measure in 2020-21 to replace the above	

Statement of responsibility for the year ended 30 June 2021

Under the requirements specified in the Crown Entities Act 2004, section 155, the Commission's Board is responsible for:

- The preparation of the Commission's financial statements and statement of performance and the judgements made in them;
- Any end-of-year performance information provided by the Commission under section 19A of the Public Finance Act 1989; and
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's financial and non-financial reporting.

In the Board's opinion these financial statements and statement of performance fairly reflect the financial position and operations of the Commission for the year ended 30 June 2021.

Signed on behalf of the Board:



Ganesh Nana
Chair



Andrew Sweet
Commissioner & Assurance
Committee Chair

Date: 16 December 2021

To the readers of New Zealand Productivity Commission's financial statements and performance information for the year ended 30 June 2021

The Auditor-General is the auditor of the New Zealand Productivity Commission (the Commission). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for an appropriation, of the Commission on his behalf.

Opinion

We have audited:

- the financial statements of the Commission on pages 42 to 57, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a statement of accounting policies and other explanatory information; and
- the performance information of the Commission on pages 13 to 34, 36 and 37.

In our opinion:

- The financial statements of the Commission on pages 42 to 57:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 13 to 34, 36 and 37:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2021, including:

- for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
- what has been achieved with the appropriation; and
- the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 16 December 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Commission for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Commission for assessing the Commission's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Commission, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Commission's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Commission's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Commission's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Commission regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 12,

35 and 58 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Commission in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Commission.



Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

2020–21 Financial statements

Statement of comprehensive revenue and expense for the year ended 30 June 2021

	Notes	Actual 2021 \$000	Budget 2021 \$000	Actual 2020 \$000
Revenue				
Revenue from the Crown	1	5 030	5 030	5 030
Interest revenue		1	2	1
Other revenue	1	140	-	102
<i>Total revenue</i>		5 171	5 032	5 133
Expenses				
Personnel costs	2	3 050	3 558	3 405
Other expenses	3	1 098	1 447	1 558
Depreciation and amortisation expense	6, 7	45	27	35
<i>Total expenses</i>		4 193	5 032	4 998
Net surplus and total comprehensive revenue and expense		978	-	135

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of changes in equity for the year ended 30 June 2021

	Note	Actual 2021 \$000	Budget 2021 \$000	Actual 2020 \$000
Balance at 1 July		1 088	953	953
Total comprehensive revenue and expense		978	-	135
Balance at 30 June	12	2 066	952	1 088

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of financial position
as at 30 June 2021

	Notes	Actual 2021 \$000	Budget 2021 \$000	Actual 2020 \$000
Assets				
<i>Current assets</i>				
Cash and cash equivalents	4	2 343	1 434	1 439
Debtors and other receivables	5	101	49	95
<i>Total current assets</i>		2 444	1 483	1 534
<i>Non-current assets</i>				
Property, plant and equipment	6	77	21	53
Intangible assets	7	23	-	34
<i>Total non-current assets</i>		100	21	87
Total assets		2 544	1 504	1 621
Liabilities				
<i>Current liabilities</i>				
Creditors and other payables	8	178	242	228
Lease incentive	9	12	-	7
Employee entitlements	10	183	199	187
<i>Total current liabilities</i>		373	441	422
<i>Non-current liabilities</i>				
Lease incentive	9	34	41	46
Provisions	11	71	69	65
<i>Total non-current liabilities</i>		105	110	111
Total liabilities		478	551	533
Net assets		2 066	953	1 088
Equity				
Contributed capital	12	500	500	500
Accumulated surplus/(deficit)	12	1 566	453	588
Total equity		2 066	953	1 088

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of cash flows
for the year ended 30 June 2021

	Actual 2021 \$000	Budget 2021 \$000	Actual 2020S \$000
Cash flows from operating activities			
Receipts from the Crown	5 030	5 030	5 030
Interest received	1	2	1
Receipts from other revenue	102	12	141
Payments to suppliers	(1 139)	(1 444)	(1 672)
Payments to employees	(3 054)	(3 546)	(3 436)
Goods and services tax (net)	22	(3)	(13)
<i>Net cash flow from operating activities</i>	<i>962</i>	<i>51</i>	<i>51</i>
Cash flows from investing activities			
Purchases of property, plant and equipment	(58)	-	(24)
Purchase of intangible assets	-	-	(29)
<i>Net cash flow from investing activities</i>	<i>(58)</i>	<i>-</i>	<i>(53)</i>
Net increase/(decrease) in cash and cash equivalents	904	51	(2)
Cash and cash equivalents at 1 July	1 439	1 383	1 441
Cash and cash equivalents at 30 June	2 343	1 434	1 439

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Reconciliation of net surplus/(deficit) to net cash flow from operating activities

	Actual 2021 \$000	Actual 2020 \$000
Net surplus/deficit	978	135
<i>Add/(less) non-cash items</i>		
Depreciation and amortisation expense	45	35
Lease make good provision and lease incentive	(1)	(15)
Total non-cash items	44	20
<i>Add /(less) movements in working capital items</i>		
Debtors and other receivables	(6)	8
Creditors and other payables	(50)	(136)
Employee entitlements	(4)	24
Net movements in working capital items	(60)	(104)
Net cash flow from operating activities	962	51

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of accounting policies

Reporting entity

The New Zealand Productivity Commission (the Commission) is a Crown entity in terms of the Crown Entities Act 2004. It was established under the New Zealand Productivity Commission Act 2010 and its parent is the Crown. The Commission's principal activities are to:

- undertake in-depth inquiries on topics referred to it by the Government;
- carry out productivity-related research that assists to improve productivity over time; and
- promote public understanding of productivity-related matters.

The Commission is a public benefit entity (PBE) for financial reporting purposes. The financial statements for the Commission are for the year ended 30 June 2021, and were approved by the Board on 16 December 2021.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The Commission has applied the suite of *Tier 2 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS 1 RDR 28-3)* in preparing the 30 June 2021 financial statements. The Commission has expenses of less than \$30 million.

Measurement base

The financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Commission is New Zealand dollars.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Comparatives

When the presentation or classification of items in the financial statements are amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impractical to do so.

Standards issued and not early adopted

Standards and amendments, issued but not yet effective, that have not been early adopted are:

PBE IPSAS 2 Statement of cash flows

The amendments to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective on or after 30 June 2022, with early application permitted.

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods ending on or after 30 June 2023. Although the Commission has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9. The Commission does not intend to adopt the standard early.

PBE FRS 48 Service performance reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 30 June 2022. The Commission has not yet determined how application of PBE FRS 48 will affect its *Statement of Performance*.

Significant accounting policies

The significant accounting policies which materially affect the measurement of financial performance, position and cash flows have been applied consistently for all reporting periods covered by these financial statements. The policies satisfy the concepts of relevance and reliability ensuring the substance of the underlying transactions or other events is reported. Significant accounting policies are included in the notes to which they relate.

Goods and services tax

All items in the financial statements are presented exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net GST recoverable from, or payable to Inland Revenue (IR) is included as part of receivables or payables in the *Statement of Financial Position*.

The net GST paid to, or received from IR, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the *Statement of Cash Flows*.

Income tax

The Commission is a public authority and consequently is exempt from income tax under section CW 38 of the *Income Tax Act 2007*. Accordingly, no provision has been made for income tax.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars (the functional

currency) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Budget figures

The budget figures are derived from the Statement of Performance Expectations as approved by the Board. The budget figures are unaudited and have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Performance outputs

Direct costs are charged directly to outputs. Research personnel costs are allocated to outputs based on the time spent. The indirect costs of support groups and overhead costs are charged to outputs based on the proportion of direct costs of each output.

Critical accounting estimates and assumptions

In preparing these financial statements the Commission has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

Leases classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement

transfers substantially all the risks and rewards of ownership to the Commission. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas for an operating lease no such asset is recognised. The Commission has exercised its judgement on the appropriate classification of equipment leases, and has determined that none of the lease arrangements are finance leases.

Notes to the financial statements

Note 1 Revenue

Revenue is measured at fair value of consideration received or receivable. Revenue is derived through the provision of outputs for the Crown, services to third parties and investment income.

Revenue from the Crown

Revenue from the Crown transactions are considered to be non-exchange transactions. The Commission is primarily funded through revenue received from the Crown. The funding is restricted in its use for the purpose of the Commission meeting its objectives as specified in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, the Commission considers there are no conditions attached to the funding.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates. The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Interest

Interest revenue is recognised using the effective interest method.

Other revenue

Other revenue transactions are considered to be exchange transactions. They are personnel costs recovered for employees who work on secondment in other organisations.

Other revenue is recognised as revenue when earned and is reported in the financial period to which it relates.

Note 2 Personnel costs

Personnel costs are recognised in the period to which they relate.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the surplus or deficit as incurred. The Commission also operates a 'total remuneration' policy, such that employer KiwiSaver contributions are part of total remuneration and not an additional benefit.

Defined benefit schemes

The Commission does not make employer contributions to any defined benefit superannuation schemes.

	Actual 2021 \$000	Actual 2020 \$000
Salaries and contractors	2 308	2 603
Board fees	656	689
Employer contributions to KiwiSaver defined contribution superannuation plan	58	64
Other entitlements	(9)	14
Bonuses	23	28
Other	14	7
Total personnel costs	3 050	3 405

Employee remuneration

	Number of employees 2021	Number of employees 2020
\$100 000 – 109 999	3	4
\$110 000 – 119 999	1	-
\$130 000 – 139 999	3	-
\$140 000 – 149 999	-	1
\$160 000 – 169 999	1	2
\$170 000 – 179 999	2	2
\$190 000 – 199 999	1	2
\$200 000 – 209 999	-	1
\$210 000 – 219 999	2	1
Total employees	13	13

Key personnel compensation

	Remuneration 2021 \$000	Full-time equivalent members 2021	Remuneration 2020 \$000	Full-time equivalent members 2020
Board members	649	1.9	689	1.6
Leadership team	715	3.3	775	3.6
Total key management personnel remuneration	1 364	5.2	1 464	5.2

Key management personnel are Commissioners, General Manager and two Directors.

Board fees

Commissioners are appointed by the Crown and are the Board for the purposes of the *Crown Entities Act 2004*. All Commissioners are part-time and their fee is set by the Remuneration Authority.

	Actual 2021 \$000	Actual 2020 \$000
Dr. Ganesh Nana (Chair)	140	-
Murray Sherwin (former Chair)	131	303
Prof. Gail Pacheco	163	151
Andrew Sweet	155	165
Dr. Bill Rosenberg	60	-
Dr. Graham Scott	-	70
Total Board member remuneration	649	689

During the financial year, payments made, or payable to Lesley Mackle, committee member appointed by the Board, but who is not a Board member, was \$7 000 (2020: \$3 500 was paid to both Lesley Mackle and Elizabeth Hickey).

The Commission has not provided a deed of indemnity to Board members for activities undertaken in the performance

of the Commission's functions. The Commission has not effected directors' and officers' liability and professional indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees. No Board or committee members received compensation or other benefits in relation to cessation (2020: Nil).

Note 3 Other expenses

	Actual 2021 \$000	Actual 2020 \$000
Fees to principal auditor for financial statement audit	34	34
Consultancy	375	706
Information technology and telecommunications	276	363
Travel and transport	25	76
Operating lease expense (office rental)	196	202
Communication and engagement	19	17
Training and development	38	39
Other expenses	135	121
Total other expenses	1 098	1 558

Office rental

The non-cancellable operating lease expense relates to the lease of the fifteenth floor of Fujitsu Tower in Wellington.

The lease expires in March 2025. The Commission as lessee exercised its right to renew in April 2016. The rental was also reviewed in April 2019 with a rental rebate of \$1 031.92 (GST exclusive) per month for 48 months from April 2021.

As the lessor retains substantially all the risk and rewards of ownership of the leased

property, the operating lease payments are recognised in the surplus or deficit only in the period in which they occur.

Any lease incentive received or obligations to make good on the condition of the leased premises are recognised in the surplus or deficit over the term of the lease.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2021 \$000	Actual 2020 \$000
Not later than one year	186	191
Later than one year and not later than five years	560	696
Total non-cancellable operating leases	746	887

Note 4 Cash and cash equivalents

Cash and cash equivalents include operating and savings bank accounts held with Westpac. The carrying value of cash at bank and cash equivalents approximates fair

value. The Commission is only permitted to spend its cash and cash equivalents within the scope and limits of its appropriation.

	Actual 2021 \$000	Actual 2020 \$000
Operating bank account	270	301
Savings bank account	2 073	1 138
Total cash and cash equivalents	2 343	1 439

Note 5 Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The carrying value of debtors and other receivables approximates their fair value. All trade

debtors are due within 30 days. Trade debtors have been assessed for impairment based on expected credit losses. No provision for expected credit losses have been made as at 30 June 2021 (2020: Nil).

	Actual 2021 \$000	Actual 2020 \$000
Receivables – exchange transactions		
Debtors and other receivables	38	-
Prepayments	47	57
Receivables – non-exchange transactions		
GST receivable	16	38
Total debtors and other receivables	101	95

Note 6 Property, plant and equipment

Property, plant and equipment consists of the following asset classes: information technology equipment, furniture, office equipment, and leasehold improvements. The capitalisation thresholds are:

- **Information technology equipment**
\$500 and over
- **Furniture**
No threshold
- **Office equipment**
\$500 and over
- **Leasehold improvements**
No threshold

Additions

An item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the Commission beyond one year or more and the cost of the item can be measured reliably. Property, plant and equipment is recorded at historical cost less accumulated depreciation and any impairment losses. Depreciation on items of property, plant and equipment acquired in stages does not commence until the item of property, plant and equipment is in its final state and ready for its intended use. Subsequent expenditure that extends the useful life or enhances the service potential of an existing item of property, plant and equipment is capitalised. All other costs incurred in maintaining the useful life or service potential of an existing item of property, plant and equipment are recognised in the surplus or deficit as expenditure when incurred.

Disposals

Gains or losses arising from the sale or disposal of an item of property, plant and equipment are recognised in the surplus or deficit in the period in which the item of property, plant and equipment is sold or disposed of.

Depreciation

Depreciation is provided on a straight-line basis on all asset components to allocate the cost of the asset (less any estimated residual value) over its useful life. The residual values and remaining useful lives of property, plant and equipment are reviewed annually. This review includes a test of impairment to ensure the carrying amount remains recoverable. Any impairment losses are recognised in the surplus or deficit. The estimated useful lives of the major asset classes are:

- **Information technology equipment**
3 to 5 years
- **Furniture**
3 to 10 years
- **Office equipment**
5 to 10 years
- **Leasehold improvements**
3 to 10 years

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Note 6 Property, plant and equipment (continued)

	IT assets \$000	Furniture \$000	Office equipment \$000	Leasehold improvements \$000	Total \$000
Cost or valuation					
Balance at 1 July 2020	175	127	86	265	653
Additions	42	1	14	1	58
Disposals	-	-	-	-	-
<i>Balance at 30 June 2021</i>	<i>217</i>	<i>128</i>	<i>100</i>	<i>266</i>	<i>711</i>
Accumulated depreciation and impairment losses					
Balance at 1 July 2020	144	118	75	263	600
Depreciation expense	27	2	4	1	34
Disposals	-	-	-	-	-
<i>Balance at 30 June 2021</i>	<i>171</i>	<i>120</i>	<i>79</i>	<i>264</i>	<i>634</i>
Carrying amounts					
<i>At 30 June 2021</i>	<i>46</i>	<i>8</i>	<i>21</i>	<i>2</i>	<i>77</i>
Cost or valuation					
Balance at 1 July 2019	215	126	78	262	681
Additions	12	1	8	3	24
Disposals	(52)	-	-	-	(52)
<i>Balance at 30 June 2020</i>	<i>175</i>	<i>127</i>	<i>86</i>	<i>265</i>	<i>653</i>
Accumulated depreciation and impairment losses					
Balance at 1 July 2019	172	117	71	262	622
Depreciation expense	24	1	4	1	30
Disposals	(52)	-	-	-	(52)
<i>Balance at 30 June 2020</i>	<i>144</i>	<i>118</i>	<i>75</i>	<i>263</i>	<i>600</i>
Carrying amounts					
<i>At 30 June 2020</i>	<i>31</i>	<i>9</i>	<i>11</i>	<i>2</i>	<i>53</i>

Property, plant and equipment have been assessed for impairment and no provisions for impairment have been made.

Note 7 Intangible assets

Software acquisition

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Staff training costs are recognised as an

expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Assets are capitalised if the purchase price is \$5 000 or greater.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The

amortisation charge for each financial year is recognised in the surplus or deficit.

The Commission's intangible assets are acquired software with useful life between 3 to 15 years.

	Actual 2021 \$000	Actual 2020 \$000
Cost or valuation		
Balance at 1 July	194	165
Additions	-	29
<i>Balance at 30 June 2020</i>	194	194
Accumulated depreciation and impairment losses		
Balance at 1 July	160	155
Amortisation expense	11	5
<i>Balance at 30 June</i>	171	160
Net carrying amount	23	34

Note 8 Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Creditors and other payables are non-interest bearing

and are settled on commercial terms and conditions, normally 30 days or less. Therefore, the carrying value of creditors and other payables approximates their fair value.

	Actual 2021 \$000	Actual 2020 \$000
Payables – exchange transactions		
Accrued expenses	91	220
Payables – non-exchange transactions		
Taxes payable (PAYE)	40	3
Other payables	47	5
Total creditors and other payables	178	228

Note 9 Lease incentive

Any unamortised lease incentive received is recognised as a liability in the *Statement of Financial Position*.

	Actual 2021 \$000	Actual 2020 \$000
Current portion	12	7
Non-current portion	34	46
Total lease incentive	46	53

Note 10 Employee entitlements

At balance date, any unpaid employee entitlements earned by employees for salaries and annual leave are recognised as a liability in the *Statement of Financial Position* and recognised in the surplus or deficit. Entitlements are calculated on an actual entitlement basis at current rates of remuneration. The Commission recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created

a constructive obligation. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave to be taken in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The Commission does not offer retirement or long service leave benefits to its employees.

	Actual 2021 \$000	Actual 2020 \$000
Accrued annual leave	119	128
Accrued salaries and wages	64	59
Total employee entitlements	183	187

Note 11 Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Commission is required at the expiry of the lease term to make good any damage caused to its leased office premises, and to remove any fixtures or fittings installed by

the Commission. The Commission has the option to renew this lease, which affects the timing of expected cash outflows to make-good the premises. The cash flows associated with provision are expected to occur in March 2025. Information about the leasing arrangement is disclosed in note 3.

	Actual 2021 \$000	Actual 2020 \$000
Lease make-good		
Non-current portion	71	65
Total provisions	71	65

Movements within the provision:

	Actual 2021 \$000	Actual 2020 \$000
Balance at 1 July	65	75
Additional provisions made	6	(10)
Balance at 30 June	71	65

Note 12 Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contributed capital
- accumulated surplus / (deficit)

The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004,

which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives. The Commission manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the Commission effectively achieves its objectives and purpose, while remaining a going concern.

	Actual 2021 \$000	Actual 2020 \$000
Balance at 1 July	1 088	953
Surplus/(deficit) for the year	978	135
Balance at 30 June	2 066	1 088

Note 13 Contingencies

The Commission has no contingent liabilities and no contingent assets (2020: Nil).

Note 14 Events after the balance date

There were no significant events after the balance date (2020: Nil).

Note 15 Financial instruments

	Actual 2021 \$000	Actual 2020 \$000
Financial assets held at amortised cost		
Cash and cash equivalents	2 343	1 439
Debtors and other receivables	38	-
Total financial assets held a amortised cost	2 381	1 439
Financial liabilities measured at amortised cost		
Creditors and other payables (excluding income in advance)	158	225
Total financial liabilities measured at amortised cost	158	225

Financial instrument risks

The Commission is a party to financial instrument arrangements as part of its everyday operations. These financial instruments include bank accounts, accounts receivable, and accounts payable. The Commission has policies to manage the risks associated with financial instruments. The Commission seeks to minimise exposure from financial instruments and does not enter into speculative financial instrument transactions.

Market risk

Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to cash flow interest rate risk is limited to on-call bank accounts and short-term deposits, arising from the investment of surplus cash due to the timing of cash inflows and outflows.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Commission, causing it to incur a loss. The Commission invests surplus cash with registered banks. In the normal course of business, the Commission is exposed to credit risk from cash and term deposits with banks, debtors and other receivables. For each of

these, the maximum credit exposure is best represented by the carrying amount in the Statement of Financial Position. Westpac Banking Corporation is the Commission's main bank and has a Standard & Poors rating of AA-.

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that the Commission will encounter difficulty raising liquid funds to meet commitments as they fall due. The Commission has a low exposure to liquidity risk as it does not enter into credit arrangements, except for those available from suppliers as part of normal operating agreements. The Commission manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and aims to maintain sufficient funds in current and on-call bank accounts and short-term fixed deposits to meet forecast liquidity requirements.

Note 16 Related party transactions

The Commission is a wholly-owned entity of the Crown. Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that is reasonable to expect the Commission would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example,

Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

The Commission purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. This included the purchase of administrative support services from the Inland Revenue, electricity from Meridian Energy, travel from Air New Zealand, postal services from New Zealand Post, data and publications from Stats NZ, and professional development involving Massey University and Victoria University. All related party transactions have been entered into on an arm's length basis.

Key personnel

Commissioners are appointed by the Crown and are the Board for the purposes of the Crown Entities Act 2004. In addition to their role with the Commission, Commissioners have other interests and may serve in positions with other organisations, including organisations to which the Commission is related. Potential conflicts of interest are declared in an interests register. No Commissioner was exempted during the year from the requirement to not vote or take part in any decision despite being interested.

Refer to note 2 for a breakdown of key management personnel compensation.

Note 17 Explanation of major variances against budget

The net surplus for the Commission, from 1 July 2020 to 30 June 2021 was \$978 000 (2019-20: net surplus of \$135 000). In terms of the surplus, the key area of underspend was \$507 000 due to vacancy lag, particularly in senior positions (ie, Director & Principal Advisor) and in Flexi Resourcing of \$325 000 which was due to the delay in having a second inquiry.

Our governance and management

Board



Dr. Ganesh Nana
Chair



Andrew Sweet
Commissioner



Prof. Gail Pacheco
Commissioner



Dr. Bill Rosenberg
Commissioner

Leadership team



Daiman Smith
General Manager



Judy Kavanagh
Inquiry Director



Philip Stevens
Economics & Research
Director



Jo Smiths
Inquiry Director (Acting)



Nicholas Green
Inquiry Director (Acting)

