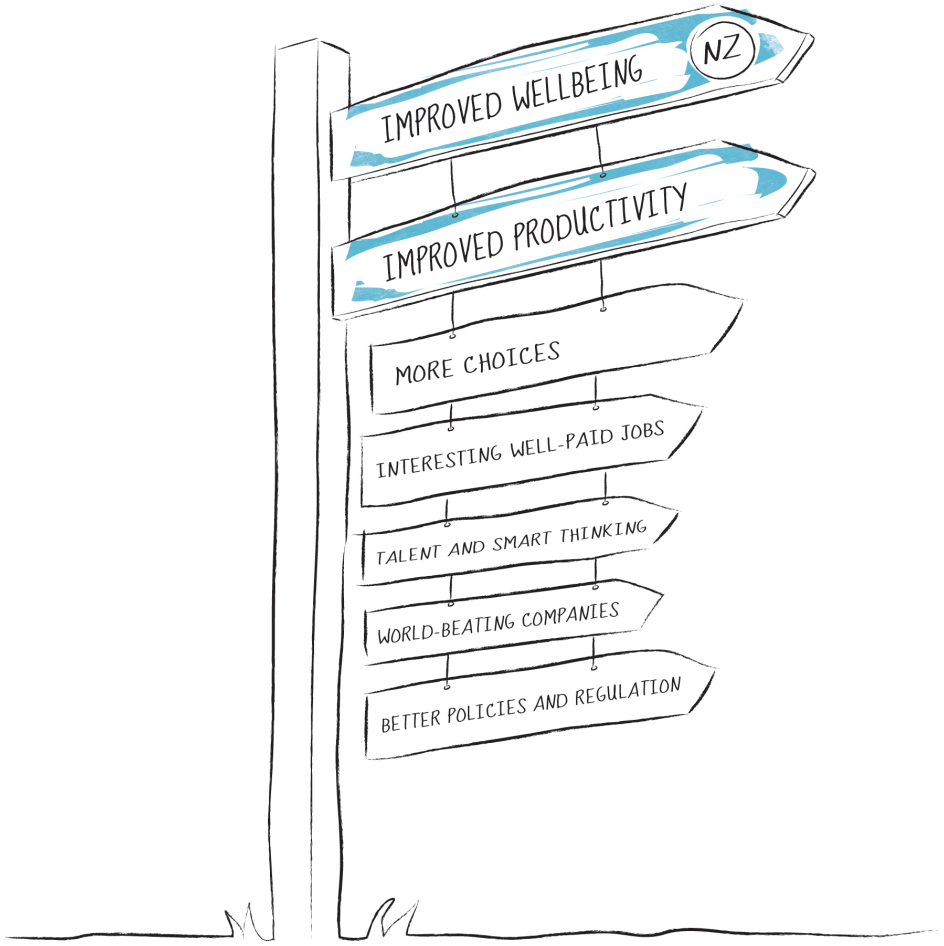
NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa



New Zealand Productivity Commission Statement of Intent 2017 – 2021

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

New Zealand Productivity Commission Statement of Intent 2017 - 2021
Te Kōmihana Whai Hua o Aotearoa[1]

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Contact details

Productivity Commission
Level 15, Fujitsu Tower (PO Box 8036)
141 The Terrace
Wellington 6143
New Zealand

+64 4 903 5150
info@productivity.govt.nz
www.productivity.govt.nz
Twitter: @nzprocom
Linkedin: NZ Productivity Commission

[1] The Commission that pursues abundance for New Zealand.

The Commission at a glance

- We are an **independent Crown entity** that provides evidence-based, high quality analysis and advice about productivity-related matters.

- Established under the **New Zealand Productivity Commission Act 2010**, we are a small, highly-skilled group of analysts, economists and support staff guided and governed by three part-time Commissioners.

- **Our analysis, advice and research is focused on improving New Zealand's productivity** – at an individual, business, and institutional level. The ultimate goal is to contribute to a more prosperous, secure and healthy society.

- Our work considers whether **current laws, policies, regulations and institutions** best support improved productivity and in doing so, are in the best interests of all New Zealanders.

- Our independence means we are **neutral in our approach and can work across government agencies and policy portfolios** to give advice on difficult and often politically sensitive topics.

- We **engage deeply and meaningfully** on complex matters where core agencies are often constrained in their ability to engage.

- **Our work style is collaborative** – we work with and across agencies and organisations to ensure our work is relevant, useful and contributes to an improved understanding of productivity.

- The **collection and analysis of information is central to grounding our work in evidence** which enables us to frame the productivity story in a meaningful and constructive way.

- To date we have **completed ten inquiries, a narrative about New Zealand's productivity and a large collection of research** about productivity-related matters. The Government has recently announced **two new inquiries – state sector productivity and transitioning to a low emissions economy.** These inquiries will form the major part of our 2017/18 work programme.

- Our work has contributed to significant reform and we will continue to look for opportunities to **influence, promote and raise the quality of public policy and debate** that underpins wider discussions on lifting New Zealand's overall economic performance.

Statement of responsibility

This document constitutes our Statement of Intent as required under the Crown Entities Act 2004.

The descriptions of our purpose, role and functions are consistent with the New Zealand Productivity Commission Act 2010. The *Statement* is forward-looking and covers a four-year period between 1 July 2017 and 30 June 2021. It should be read in conjunction with the Commission's Statement of Performance Expectations for each year.

The Commission's Board is responsible for the content of this Statement and the annual Statement of Performance Expectations, which include the reportable outputs and the Prospective Financial Statements for the year, including the assumptions on which they are based, and for the judgements used in preparing them.

In accordance with the Crown Entities Act the Commission has consulted with the Minister of Finance in the preparation of this Statement.

Murray Sherwin
Chair
June 2017

Graham Scott
Assurance Committee Chair
June 2017

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Chair's message

Productivity matters – it is a major driver of economic growth and improved living standards. That is why New Zealand's relatively poor productivity performance is a serious concern. Low productivity means that New Zealanders are potentially working more for less and that our institutions and policy settings are not as efficient nor as effective as they could be.

Murray Sherwin

The 'productivity challenge' is at the heart of the Commission's existence and feeds our inquiry work and research programme. Charged with providing Government advice on improving productivity, the Commission has spent the past six years delving into difficult and often topical areas in which specific obstacles to improved productivity could be identified and remedied.

We have also published a significant body of research to improve the understanding of productivity including a detailed analysis of the issue – 'the productivity narrative' – in which we make recommendations for policy improvement.

Underpinning all of this work is a focus on the wellbeing of all New Zealanders. While we aim to lift productivity, we do so with the end goal of improving wellbeing.

But are we making a difference? We know that our work is filling an important gap in the public policy advisory system. Our independence allow us to comment openly on sensitive issues and our engagement model means we connect with and listen to a broad spectrum of interested parties. Our reports are used by multiple agencies and stakeholders and our work directly impacts on matters central to improving New Zealand's productivity performance.

The challenge for decision-makers is to have the will and capability to take our recommendations and findings and give them effect. Our challenge is to ensure our analysis and presentation are convincing, compelling and hard to ignore.

The Commission's work will remain focused around three key activities. First, making recommendations through our inquiry work to inform policy decision-making. Second, developing collaborative and coordinated research and analysis to underpin and shape our advice on productivity issues. And third, publish research and information that improves public understanding of productivity issues to highlight why they are important and to increase the likelihood that productivity improvements are made.

We have completed 10 inquiries to date with two new mandates – state sector productivity and transitioning to a low emissions economy – recently confirmed. Our surveys and focus groups tell us that our inquiry model is fundamentally strong, but we continue to look for ways to improve our processes and products. Our focus will remain on conducting evidence-based analysis, extensively engaging and consulting with stakeholders and the public, and effectively communicating our work. This includes playing to our points of difference as an organisation, such as our ability to find new insights from looking across broad systems of activity, and across the typical boundaries of public, private and community organisations.

In the research area, we will continue our efforts to develop collaborative and coordinated analysis to help improve public understanding of productivity issues. Our research work is largely self-referred which gives us a wide ability to shape debate on, and make a difference to, long-standing New Zealand economic performance challenges.

There is a great deal about productivity that is difficult to understand. The productivity challenge is a global problem that many have and continue to grapple with, including the Commission. Our productivity research allows us to dig deep into New Zealand's productivity performance – the challenges and opportunities. Through our research agenda, such as our work using the longitudinal business database and our current focus on spatial productivity, the Commission provides research relevant to New Zealand and our specific areas of interest.

The research also intersects with our inquiry work. One example is the Commission's research into public sector productivity which provided a platform for the recently announced inquiry topic into state sector productivity.

Our research work has also provided a means of enhancing local and international linkages. We have been influential in the establishment of the OECD's Forum on Productivity and believe there are important opportunities to extract real value for New Zealand from the Forum's work. For example, getting New Zealand data included in OECD research to ensure New Zealand appears in comparative analysis. Within New Zealand, the Productivity Hub enables us to work across agencies to develop a relevant and interesting collaborative research agenda.

The Commission is fundamentally an advisory body reliant on the power and communication of our ideas and analysis to influence and shape policy. We will only be influential if we produce high quality work. To achieve high quality, we subject our inquiry and research processes and products to rigorous, regular and independent evaluation. The topics we work on, the types of analysis we conduct, and the range of community and industry groups we engage with, change significantly from year to year. Given these factors, it is difficult to capture the diversity of work and effort in quantitative targets. That is why we have a strong qualitative and evaluation-based approach to measuring our performance.

We also need sufficient resource levels to be effective. The Commission's fixed nominal baseline funding will come under increasing pressure over time. For this reason we have sought additional funding, unsuccessfully at this stage, to maintain the pace and quality of our outputs and to seize upon a number of opportunities to better promote understanding and awareness of New Zealand's productivity issues. We will continue to advocate for an increase in funding and further refine our business case for this purpose.

We look forward to our next four years of activity and continuing our contribution to lifting productivity and the wellbeing of all New Zealanders.

Murray Sherwin
Chair
New Zealand Productivity Commission
June 2017

What we do

Our purpose

The New Zealand Productivity Commission Act 2010 describes our principal purpose and reason for existing as:

> *Providing 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.*

Our work

We provide recommendations on ways to improve productivity and to increase understanding of the issues affecting productivity. Our work is evidence-based and we seek to influence and raise the quality of public policy and debate on productivity-related matters. Overall we seek to contribute to sustainable and inclusive productivity growth and create more options for lifting the wellbeing of New Zealanders. In doing so, the Commission aims to contribute to a more prosperous, secure and healthy society.

Our work programme is delivered across two output areas: inquiries and research. This work considers whether laws, policies, regulations and institutions that affect New Zealand's productivity can be improved.

Our research function focuses on the wider New Zealand productivity challenge and digs deep into areas important to the future of New Zealand's economy. The research contributes to a better understanding of productivity-related matters and provides a vehicle through which the Commission collaborates with other government agencies on productivity research.

The inquiry function draws on our research function in its indepth analysis of specific matters of productivity. Each year, the Government chooses inquiry topics to ensure the Commission's work is relevant and addresses complex issues of particular interest to the Government.

Once topics are set, we are required to act independently as we go about our work. Inquiries are big pieces of analysis, generally taking 12 to 15 months to complete. The time allowed recognises the importance of engaging extensively with those who have an interest in the topics, to ensure we are exposed to all points of view, get the best available information, understand different perspectives and test ideas.

Promoting understanding of productivity issues can take many forms besides our communications activity to support inquiry and research work. We regularly speak about productivity issues to different sectors and use multimedia and social media to engage with different audiences.

The importance of being independent in delivering our functions

As noted earlier we operate independently in delivering our functions. Independence means that we make our own judgements on matters based on evidence-based analysis and extensive and widespread engagement with the public.

Three factors are critical to our independence:

- Statutory independence: we are statutorily independent by virtue of our Act and the Crown Entities Act. That statutorily independent mandate is critical to our effectiveness.
- Operational independence: In practical terms, operational independence means that we have the requisite capability to carry out our own inquiries and research work and publish our findings, as well as engage and collaborate with a wide range of parties.
- Impartiality and objectivity: We regard it as fundamentally important to act impartially and objectively as we carry out our work. Independent evaluation is also a critical dimension of our performance framework.

The strategic context for our work

What is productivity, why is it important, and how is it lifted?

Ultimately we seek to influence two strategic outcomes: to *lift New Zealand's productivity* and, as a result, *lift the wellbeing of New Zealanders*. To achieve this, we are focused on making a discernible contribution to the understanding of productivity issues and associated policy challenges in the New Zealand context.

What is productivity?	By delivering more for less, higher productivity is the major driver of sustainable economic growth and improved living standards. For New Zealand, this is about making better use of our available resources – such as the environment, time spent at work, skills and management capability, capital, and intellectual property. Using our resources more effectively leads to greater opportunities and choices. For the country, this means better quality services such as healthcare and education; excellent roads; safer communities; stronger support for people who need it; and a "cleaner and greener" environment. For individual New Zealanders, productivity improvements mean more choices and a higher standard of living.
Why is it low in New Zealand?	Improving productivity is essential to New Zealand's long term economic performance and success. While New Zealand's productivity is higher now than historically, it has not increased as quickly as in most other OECD countries and our per capita income growth has been slower. This means that compared to workers in the rest of the OECD, New Zealanders are working more for less. New Zealand faces an unusual set of challenges in lifting productivity – small and insular domestic markets and comparatively low investment in capital and knowledge make the going harder than it ideally would be. Given these challenges, New Zealand's economic performance over recent decades has been characterised by low growth in productivity and wages, and high international debt.
How can it be lifted?	A more productive economy would see the substantial gap between New Zealand incomes and those of the more advanced OECD countries steadily close. There is no simple formula for lifting productivity, especially given New Zealand's unique economic circumstances. Higher productivity is ultimately the result of individual and organisational decisions about what generates value. Continuous policy improvements are essential in incentivising individuals, businesses and other organisations to make decisions that support increased productivity and wellbeing. The Productivity Commission is committed to better policies that allow smarter resource use and making the most of new opportunities, such as major changes in the global trading environment. This implies a reform agenda focused on skills, flexibility, openness, and receptiveness to new technology. In addition to these important new challenges, some perennial concerns remain. For example, how can policy assist and overcome disadvantages of limited competition and small-scale operations. In contributing to this agenda, the Commission's policy advice is strongly evidence-based and aimed at more efficient, productive and responsive regulatory settings. Our research work is applied and practical and provides 'big-picture' insights into enhancing New Zealand's long-term economic success. Against this background, our inquiries provide deep dives into policy areas in which specific obstacles to improved productivity can be identified and remedied.

Our evolving operating environment

The more we understand our evolving operating environment, the better our chances of success. When looking ahead, the Commission sees a number of important overarching factors to recognise in our work, including:

- **Contributing to and influencing wider discussions on lifting New Zealand's overall economic performance.** The Commission's strategic objectives are important in the wider discussion of lifting New Zealand's overall economic performance and how public policy can be re-worked to achieve that lift. Our work can influence significant discussions in this regard. Considering how to gain influence will be an ongoing challenge. Intermediaries (such as the media, senior officials, etc.) continue to be time and resource constrained. Influence, therefore, depends on the quality of our advice and communications and our ability to earn confidence, respect and trust in our operating environment.

- **Ensure we remain relevant and credible.** Being regarded as relevant and useful to key customers is critical. We want to avoid being side lined or our work being regarded as politically inconvenient. We will continue to consider how best to manage relationships with current and future customers – particularly our Ministers who refer the most significant aspects of our work programme to us (ie, our inquiry mandates). Clearly, a key demonstration of our perceived utility will come if we continue to receive interesting and important inquiry mandates.

- **Manage countervailing forces on post-inquiry 'after-care'.** There are a range of countervailing forces that prevent us engaging deeply with key sectors after our inquiries have concluded, central of which is the need to devote resources to the next inquiry. To date we have discerned considerable gaps in policy capability across government when it comes to understanding and implementing our findings and recommendations. Our response, to the extent current resources allow, will need to consider the most effective form of engagement after our inquiries to ensure more effective and informed implementation of our work.

- **Craft and position key messages and engage meaningfully on these.** Quality communication is integral to all that we do. The current media environment offers short windows for getting messages out and limited capacity for deeper analysis and discussion. To ensure effective and meaningful engagement our communications approach will need to think further about who we are trying to communicate with, what we want to say, the form in which we present our key messages, and how we discern whether our messages are effective or not.

- **Extract the maximum value from the research agenda and set clear goals for research partnerships.** For our research programme there will be value in thinking carefully about what research areas to focus on, and how best to squeeze the most value out of this aspect of our work. Effectively engaging internationally and ensuring that coordination mechanisms like the Productivity Hub maintain a relevant and interesting collaborative research agenda will also be part of this thinking.

How we make a difference: Our outcomes framework

The Commission seeks to influence two outcomes: **lift New Zealand's productivity** and, as a result, **lift the wellbeing of New Zealanders**. Our main points of influence are our inquiry reports and research products . Through these, the Commission:

- explores the causes of New Zealand's productivity performance
- identifies barriers to higher productivity and wellbeing, and
- recommends 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 that contribute to the achievement of our outcomes. To do this effectively, the Commission must be rigorous, trusted and a skilled communicator. Figure 1 illustrates how we expect to make a difference, along with the core capabilities and the reputation we wish to develop.

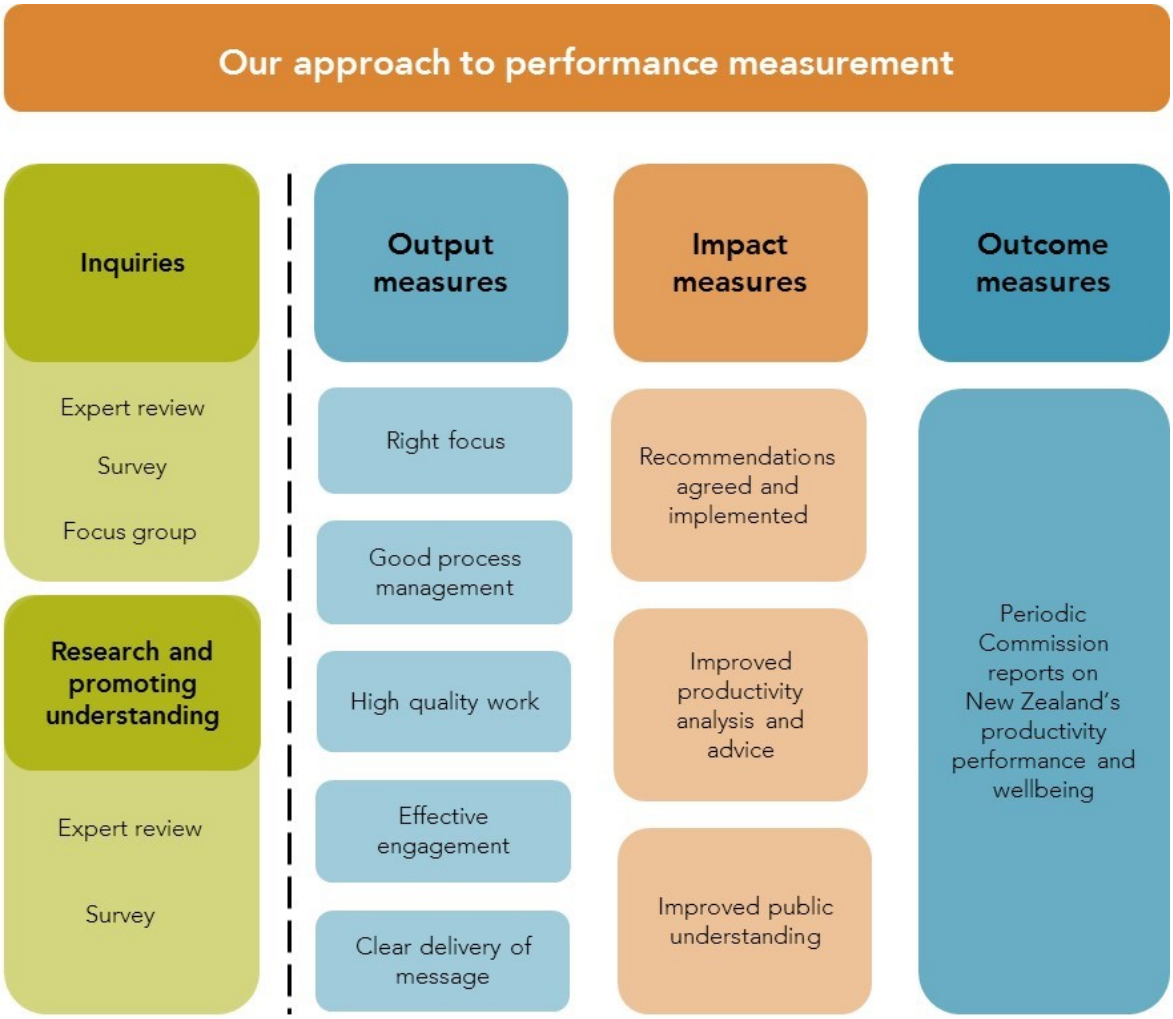
Figure 1: Outcomes framework

Given our focus on wellbeing, our work also aligns with many goals and priorities pursued in other areas of the Government and other organisations. Of the Government's four overarching priorities, our work contributes primarily to *"building a more competitive and productive economy"*.

How we measure progress against the framework

The Commission's approach to performance measurement is summarised in Figure 2

Figure 2: Performance measurement



The topics we work on, the types of analysis we have to 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 targets, so the Commission has taken a strongly evaluation-based approach to measuring our performance.

We believe this is appropriate as, ultimately, the Commission's ability to make an impact depends on the quality of its work. We subject our inquiry and research outputs to rigorous, regular and independent evaluation to ensure that our work is robust, relevant, clear and of value.

Measurement and evaluation of our performance is based around three main activities:

- **An independent expert review** by someone with significant policy and/or productivity research experience, who is sufficiently familiar with our role and functions.
- **A survey of external participants** in our work with a broad set of questions covering multiple aspects of the work, such as the quality of our analysis and the clarity of our communication. The surveys provide both quantitative data and narrative feedback
- In the case of inquiries, **a stakeholder focus group** of about 6-10 attendees from different backgrounds, independently facilitated without Commission attendance. Focus groups are not as well-suited to our research work, but the expert reviewer would talk to some key stakeholders in forming their views.

To ensure that these approaches complement each other, they each consider our performance using the same dimensions (while ensuring flexibility for other feedback to be provided). These dimensions are noted below:

- **Having intended impacts**: what happens as a result of our work
- **Right focus:** the relevance and materiality of our inquiry and research reports
- **Good process management:** the timeliness and quality of our inquiry process
- **High-quality work**: the quality of our analysis and recommendations
- **Effective engagement**: how well we have engaged with interested parties
- **Clear delivery of message:** how well our work is communicated and presented
- **Overall quality:** the overall quality of the work taking into account all factors

[NB: We also monitor performance through analysis of our own administrative data, such as costs and whether or not key deadlines are met.]

The results of our inquiry and research performance assessments will be published, and recommendations will be actively considered, to identify both strengths and areas to work on.

Reporting on outcomes

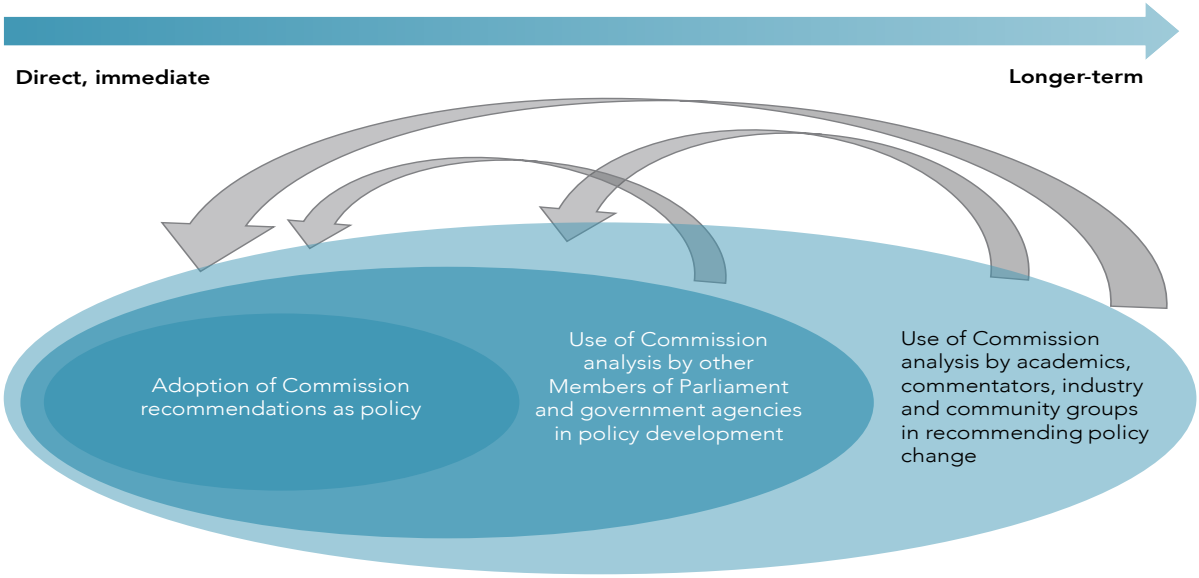
We will continue to publish periodic reports that comment on New Zealand's productivity performance and its implications for wellbeing. In November 2016, the Commission published *Achieving New Zealand's productivity potential*. This significant paper provides a detailed analysis of New Zealand's productivity performance and is intended to promote a better understanding of productivity-related matters. The paper also provides the wider context for our inquiry work.

We will continue to report on New Zealand's productivity performance through the publication of our ongoing research into the wider context as well as in areas of interest.

Reporting on impacts

The Commission is an advisory body, and does not run or implement any policies or programmes. We rely solely on the power and communication of our ideas and analysis to influence and shape policy. As highlighted in the diagram below this influence may be direct and immediate (eg, through the acceptance and adoption of our recommendations) or it may occur over longer periods (after academic, community and public consideration of our work).

Figure 3: Performance reporting



Our performance reporting will discuss our impact in the context of three broad categories:

- our **recommendations** will contribute to more productivity-enhancing decisions
- our **work** will improve understanding of productivity-related issues
- our **work** will contribute towards improving productivity analysis and advice

Supporting our performance

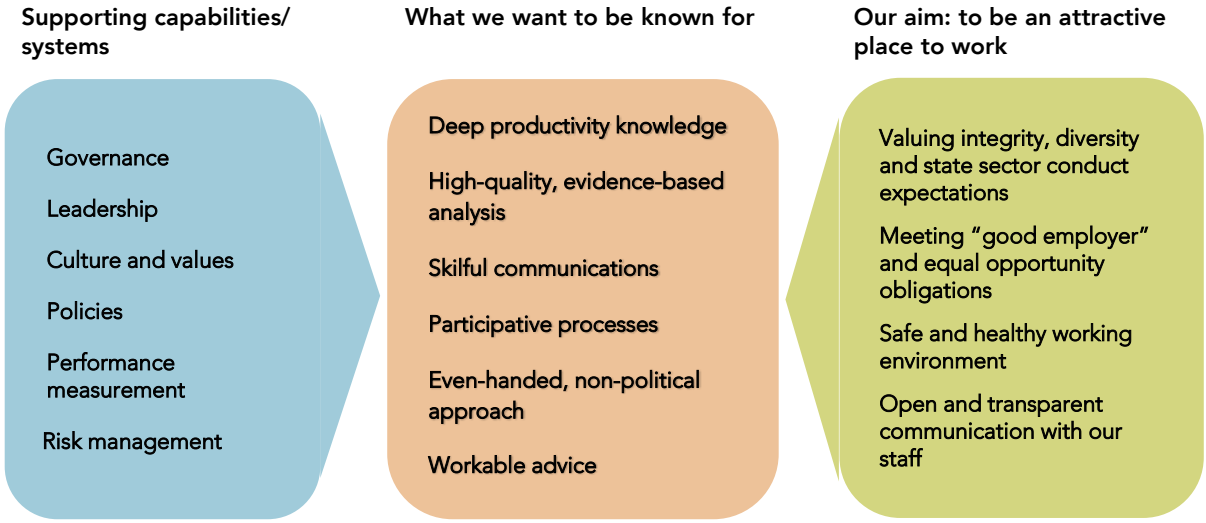
Organisational health & capability

The quality of our people is critical to our success, in particular their research and analytical skills, and ability to turn high-quality analysis into influential policy advice. We need to attract and retain people who are strong performers in their field, or who have significant potential to contribute to our research or inquiry work. Once with us, we place high importance on supporting our people, including investing in their development.

Our overall approach to resourcing is to employ people who can add significant value to any inquiry, supplemented by secondments, fixed-term contractors and, as required, use of specialist consultants to bring fresh perspectives and experience. Across all those options, we employ about 20 people.

Our work demands a high level of capability in areas such as sourcing information; analysis; process management; engagement; and communications and influencing. These key capabilities are measured indirectly through our performance measurement processes and inform our internal priorities for capability development. We also think about our capability in terms of the reputation we aspire to as an organisation. This, in turn, is linked to how we make a difference.

Figure 4: Organisational health and capability



These capabilities make sure that we get the right information into the Commission and publish insightful and influential analysis, findings and recommendations (having taken the right steps along the way).

Valuing diversity

The Commission recognises that our thinking and actions need to be informed by a diverse range of views as this will enhance the credibility, value and effectiveness of our work. We want to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence.

We aim to provide equal employment opportunities to make the most of the talents of all our people. In doing this we will maintain a clear focus on leadership, workforce development, management of people and performance, and engagement with our employees.

We assess our status as a good employer against the elements and criteria set out by the Human Rights Commission. Over the period of this Statement of Intent we will continue to ensure that all elements are in place and working well.

Strategic risks

The Commission assesses organisational risk on a regular basis to better understand and actively manage emerging and ongoing risks and ensure this understanding is reflected appropriately in the way we operate. At a higher level of analysis our strategic risks take into account the environment in which we operate and how we want to be known in that environment. Our identified strategic risks and responses to those risks include:

What we want to be known for	Risk area	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 will also make time for staff to pursue professional & knowledge development.
High-quality, evidence-based analysis	Weak analysis	While somewhat dependent on topic & circumstance we are of the general view that our work is of high quality and built on solid evidence. We use the external evaluation process to ensure this is the case. We have identified the need to make more use of internal peer review as we develop thinking and engage more with lead external practitioners (in New Zealand and internationally) in subject areas to test and extend our thinking.
Skilful communication	Poor communications	We have improved our suite of communication tools. We are focused on making our reports more effective and impactful by shaping and positioning key messages appropriately and targeting them to the right audience. We will continue to develop our communications products to ensure maximum influence and impact.
Participative processes	Poor process and/or engagement	Feedback suggests that the quality of our engagement processes are a strength of our operating model and a marked point of difference for the Commission. We will continue to monitor and improve our consultation processes to ensure maximum engagement with and involvement from a wide range of communities of interest.
Even-handed non-political approach	Bias and/or loss of independence	We are well known for providing independent advice and have increased awareness of our work and approach with parties and groups across the political spectrum. We will continue to offer briefings for all political parties when publishing our research and reports.
Workable advice	Seen as overly theoretical & lacking practicability	The quality and workability of our recommendations will be an enduring focus. We can point to evidence where our advice and recommendations are having an impact but the influence of these may emerge over long timeframes. Identifying outcomes or trends that can be attributed directly to our work, as opposed to the range of other influences on productivity, can be challenging.

Our financial outlook

Financial strategy is a key part of the Commission's overall organisational strategy. Our financial strategies include an emphasis on financial sustainability as a critical part of how we will meet organisational priorities and goals.

In its establishment phase the Commission's funding was sufficient but, over time and with a fixed nominal baseline, we envisage our funding level will come under more pressure to meet service delivery requirements – particularly in regard to workforce cost pressures. In addition, and with the benefit of five years of operation behind us, the specification of the Commission's funding into two output allocations (ie, for 'Inquiries' and 'Research') is administratively inefficient and can have a detrimental impact on our ability to deploy our resources (or allocate) resources flexibly.

We have sought an increase in the Commission's overall funding to maintain the pace and quality of our outputs and to seize upon a number of opportunities to better promote understanding and awareness of New Zealand's productivity issues as our Act asks. We also continue to seek a relaxation of the two output allocation approach. Our proposal for additional funding was not supported in the 2017 Budget round but we will continue to advocate for an increase in funding and develop our business case for this purpose.

The case for additional funding aside we will continue to ensure the best use of our taxpayer funding by prioritising expenditure on areas where we can add the most value. For us this means high-quality inquiries supported by credible and useful research products.

In addition, we will continue to set realistic expenditure budgets that we are able to operate within. To ensure we have the right budgetary focus the Commission's Board reviews financial performance on a regular basis and receives regular advice on options and priorities for budget re-forecasting and rephasing.

Given that our people are our greatest single area of investment and cost we will continue to set realistic pay and employment conditions while also being mindful of retention risks. We will regularly review how our services can continue to be delivered cost-effectively and to a high standard.

Governance and management

Board

Murray Sherwin, CNZM
Chair

Professor Sally Davenport
Commissioner

Dr Graham Scott, CB
Commissioner

Leadership team

Daiman Smith
General Manager

Steven Bailey
Inquiry Director

Judy Kavanagh
Inquiry Director

Paul Conway
Director Economics & Research

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