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| **New Zealand Productivity Commission** **2017/18 Review - Economic Development, Science & Innovation Committee****‘*Further Questions*’ 113-124** | C:\Users\alsopp\Desktop\NZPC Logo.JPG |
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| **UPTAKE OF THE cOMMISSION’S RECOMENDATIONS (Qns 113-116)** |
| The Committee is interested in the uptake of the Commission’s recommendations. |
| 113 | How have the Government and other stakeholders responded to the main recommendation of Measuring and improving state sector productivity, and Transitioning to a low-emissions economy (including the recommendations the Government has implemented)? | The formal Government response to the Commission’s reports on *Measuring and Improving State Sector Productivity* was issued on 27 February 2019 is linked here: [Govt Response to State Sector Productivity Inquiry Report](file://proddc01/personal%20folders/Daiman.Smith/2017-18%20Annual%20Review/Govt%20Response%20to%20State%20Sector%20Productivity%20Inquiry%20Report). There is also a wide range of useful information on the inquiry’s webpage [State Sector Productivity Inquiry Webpage](file://proddc01/personal%20folders/Daiman.Smith/2017-18%20Annual%20Review/State%20Sector%20Productivity%20Inquiry%20Webpage) including independent evaluation and feedback on the process and content of the inquiry. The Commission’s [*2017/18 Annual Report*](file://proddc01/personal%20folders/Daiman.Smith/2017-18%20Annual%20Review/2017/18%20Annual%20Report) also highlights various stakeholder responses and reactions to the inquiry.While the Government has yet to issue a formal response the Commission’s [*2017/18 Annual Report*](file://proddc01/personal%20folders/Daiman.Smith/2017-18%20Annual%20Review/2017/18%20Annual%20Report)does include some coverage of responses and reactions to the *Low-emission’s economy* inquiry. |
| 114 | What are the implications of the Commission’s recommendations in these two reports for change in the public sector, and what responses have there been from public sector agencies? | The inquiry on *Measuring and Improving State Sector Productivity* found that:* State sector productivity isn’t regularly measured because there is little demand from state sector leaders for measurement, therefore little effort is put into building the capability to measure
* Budget and performance management processes don’t reward productivity improvement
* There are some promising developments, particularly in the use of data and evidence to better understand the effectiveness of programmes
* Innovation is the key to improving productivity but state sector organisations often lack the characteristics that encourage innovation

The inquiry suggested that The Treasury, State Services Commission, ministers and government agency chief executives all have roles to play in setting clearer expectations for productivity gain, building capability to measure, reporting on core public service efficiency, raising the bar on the quality of new spending proposals in the budget, funding results and outcomes rather than inputs, and that the state sector needs to build agencies’ capability to measure productivity.The Government response to the inquiry picks-up on a number of these areas and highlights that “the Public Service is not working well for everyone and struggles in responding to complex needs and issues, and the longer-term opportunities and risks facing New Zealand. It has created incentives for risk aversion, inhibited innovation, reduced the ability to respond rapidly, fostered silos through vertical accountability and created a focus on the short-term”. To address these issues the Government response notes the intent of the current reform processes related to the public management and finance system, including changes to the State Sector Act 1988 and the Public Finance Act 1989, that “are working towards the common objective of a modern, agile, flexible, innovative and joined-up Public Service to improve intergenerational wellbeing”.As noted earlier the Government has not yet issued a formal response to the inquiry considering how New Zealand could transition to a *Low-emission’s economy.* In regard to such a transition, however, the inquiry did find that numerous changes will be required across the economy – some disruptive, some less obvious. Three particular shifts were highlighted for New Zealand to achieve its low-emissions goals:* Stop burning fossil fuels and switch to using electricity and other low-emission energy sources. This means a rapid and comprehensive switch of the light vehicle fleet to electric vehicles and other very low-emissions vehicles, and a switch away from fossil fuels in providing process heat for industry
* Undertake substantial levels of afforestation to offset New Zealand’s remaining emissions. This will require sustained rates of planting over the next 30 years, potentially approaching the highest annual rate ever recorded in New Zealand
* Make changes to the structure and methods of agricultural production. This will include diversification of land use towards more horticulture and cropping, and greater adoption of low-emissions practices on farms.

The inquiry further suggested that the Government prioritise the following actions to achieve the above shifts at the right scale and pace:* Establish a comprehensive and durable climate change policy framework, including separate legislated long-term targets for short- and long-lived gases; a series of successive emissions budgets; and an independent Climate Change Commission
* Reform the New Zealand Emissions Trading Scheme and apply some form of emissions pricing to methane from agriculture and waste
* Devote significantly more resources to low-emissions innovation and technology to account for the long timeframes involved in bringing innovative ideas to fruition

The inquiry also recommended a suite of other policy reforms to help drive the transition. These include introducing emissions standards for newly registered vehicles, a feebate scheme to accelerate the uptake of EVs, and mandatory climate-related financial disclosures. |
| 115 | How does the Commission assess the “slow burn” effect of its recommendations, even when its recommendation have not been accepted by Government? | The Commission is an independent research and advisory body and as such does not run or implement any policies or programmes. The Government is under no obligation to implement Commission recommendations or to respond to our reports. In this regard we are highly reliant on the power and communication of our ideas and analysis to influence and shape policy. This influence may be direct and immediate (e.g. through the acceptance and adoption or our recommendations) or it may occur over longer periods after academic, community and public consideration of our work.While the number of recommendations agreed and implemented is one measure of impact, influence may be also be seen in more subtle ways. Our reports often ‘seed’ ideas, analytical techniques or debate. We are aware of, without being able to specifically measure, the extent of such influence and the extended time lag between our work in some fields and the emergence or enactment of policy ideas that can be sourced in an inquiry report of years earlier. |
| 116 | What has the Commission done to encourage public engagement in its work, and how does the Commission assess media and social media’s role in enhancing input to, and update of, its work. | Public engagement is central to the Commission’s impact and influence. We are committed to using new and innovative communications to engage effectively with our audiences and we continuously learn from communications and engagement feedback from our evaluation processes. We actively encourage, and call for, public opinion and comment on our inquiries. This is facilitated through questions asked in our *Issues papers*, with invitations to engage sent via email to our stakeholder database (3,500+ individuals), identified interested parties, and promoted via our website, social media and speaking programme. Media releases and opinion pieces by the Commission further encourage public engagement and comment. For our new inquiry into *Technology, disruption and the future of work,* an [opinion piece](https://www.interest.co.nz/opinion/98536/productivity-commissions-tim-maddock-and%C2%A0terry-genet-analyse-nzs-labour-market-ahead) by Commission authors was published on interest.co.nz and a [3-minute video](https://www.youtube.com/watch?v=uixL-IlaDHg&t=46s) helped inform and engage the public in the inquiry. The opinion piece generated 12 online comments soon after it was published and within a week the video had 445 views. We will compare this with other communications to understand if the communications produced the right impact and reached the right audience. Our website is a key communications tool and in the last year we started a project to improve the navigation and accessibility of the site. As an example, improvements to the website will include moving away from our current pdf-heavy report approach to online report content to improve readability and searchability. On our website, we highlight the importance of public engagement and that we are keen to involve everyone in our work. We clearly outline how to make a submission, contact us or subscribe to updates. Our work generates significant public interest and we receive many invitations to speak at events about productivity, our research outputs and inquiries. The topics for our inquiries are diverse and this gives us an important platform to engage with new audiences and new media channels.Media and social media continue to be important channels to connect with our audiences. Twitter is a popular social platform and we have 2,240 followers. We monitor our analytics to review our performance and learn how to improve future communications, for example, regularly checking impressions, engagements and top and low-performing posts. We use a media monitoring provider to understand our impact, where we’re creating the most and least value to be able to better use media for our work. |
| **RESEARCH WORK: SELF-REFERRED AND WITH PRODUCTIVITY HUB PARTNERS (Qns 117-121)** |
| The Committee notes the research work that the Commission undertakes itself and with its partners in the productivity hub. |
| 117 | What amount of the Commission’s work is in research, compared to inquiries, how does the Commission assess the impact of its research work, and what are the Commission’s priorities for its research work in 2018/19 and out years? | Since establishment the self-directed programme of productivity research has accounted for about 10-15% of the Commission’s budget.Independent expert evaluations of the Commission’s economics and research function are undertaken regularly. Reviews have been undertaken in 2014, 2015, 2016 and 2018. The Commission’s research priorities are currently being refreshed but themes are likely to include:* telling New Zealand’s productivity story;
* efficiency of resource allocation;
* management and workplace performance; and
* strengthening research capacity.
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| 118 | What is the extent of the Productivity Hub’s contribution to the overall research on productivity, and how is the impact of the Hub’s work assessed? | From November 2013 to June 2016 the Productivity Hub agencies, along with Motu Economics and Public Policy Research, collaborated on a partnership using the Longitudinal Business Database (LBD). The LBD provides a detailed view of firms’ behaviour and performance across a broad range of topics (Fabling & Sanderson, 2016). Over recent years there has been a focus on how micro-data can transform thinking on social policy in New Zealand. The data on the firm side could be as powerful. A review of the LBD partnership concluded that the quality of the research produced was high but the partnership was less successful at achieving its objectives of building broader capability with using the dataset.Since June 2016 agencies have collaborated on productivity research on an ad hoc basis. The Commission’s view is that this has not helped maintain the Hub’s momentum or build broader capability with the LBD, as reflected in the overall number of agency researchers using the dataset. The Productivity Commission has aimed to support capability building (e.g., through efforts to develop a cross-agency work programme, providing networking and knowledge sharing functions for researchers) but is not funded to provide these services. The Commission is concerned that the LBD could become a stranded asset. |
| 119 | How does the Hub prioritise which research work to undertake, and how does the Commission ensure that the Hub’s research and its own are complementary? | The Commission shares its research priorities with other Productivity Hub agencies. Hub agencies share and discuss their individual work plans, research proposals, and draft material. In a small number of cases, such as with a recent update of the productivity dataset in the LBD and development of competition metrics, agencies collectively contract providers and have cross-agency governance arrangements. |
| 120 | What improvements could be made to the quantity and quality of the Hub’s research and promotion of productivity, and what are the opportunities and barriers to doing so? | The Commission’s view is that the main areas where improvements could be made to the Hub’s research programme are:* Encouraging continuity of effort: productivity research in New Zealand has been characterised by a stop-start nature. Thus, while some progress has been made, the stop-start nature reduces the ability to continue the growth of the stock of knowledge and research capability over time.
* Better connecting research to policy: the ability to draw on both industry-level and firm-level data has transformed understanding of New Zealand’s productivity performance over the last 10 years. A next step could be to further draw out the implications of this research for policymakers. This requires a portfolio of research approaches. Thus, as well as empirical analysis using industry-level and firm-level data, there could be value in more use of secondary research (e.g., summarising key findings from earlier studies), qualitative approaches, and other empirical approaches (such as the evaluation of policy experiments).
* Increased engagement with the broader research community: Commission staff have made considerable effort to engage with the wider-research community in New Zealand, including academic researchers interested in productivity. But with few exceptions, such as the fruitful collaboration with the Chair in Public Finance at Victoria University of Wellington, the efforts to engage academic researchers have not been as successful as hoped.

Having an agreed forward-looking agenda of research will help partly address these issues. A medium-term agenda will, for example, provide academic researchers with greater certainty over the topics of interest to policymakers and encourage their investment in research on these topics. Indeed, the refresh of the Commission’s research agenda is already generating improved engagement with university researchers.There is, however, an ongoing issue of the level of resourcing of productivity research. In his recent review of the Commission’s economics and research team, Professor Bob Buckle noted that the work of the Commission has meant that some core public-sector agencies previously involved in productivity research have felt they could downscale their own capability in this area. The Commission has not had a budget increase since establishment (2011) and is not funded to coordinate the Productivity Hub. |
| 121 | What work has been done, or is planned, on assessment of regional productivity, by the Commission and/or the Hub, and how might this inform evaluation of changes in regional productivity as a result of the Provincial Growth Fund? | Productivity Commission researchers are now completing a paper that looks at changing employment shares in New Zealand’s 30 largest towns and cities from 1976 to 2013. Work is also being undertaken on industry clusters in regions. These two projects will inform a future paper on questions related to regional industry structure, employment, and migration. The goal is to complete this work by December 2019.Professor Philip McCann, who is an international expert in the analysis of regional productivity, will be the keynote speaker at the Government Economics Conference on 6 December 2019. Professor McCann is based at the University of Sheffield and Chairs the UK Productivity Insights Network. He has previously been based at the University of Waikato and retains a strong interest in the New Zealand economy. |
| **the commission’s evaluation programme (Qn 122)** |
| The Committee notes that the Commission has reviewed and made changes to its evaluation programme. |
| 122 | What changes has the Commission made to its impact indicators, and how will these changes be used to improve its inquiry and research work? | The Commission’s fundamental basis and approach for reporting performance has not changed, i.e. it is strongly evaluation-based. We believe this method best aligns with the nature of our work. We have refined impact indicators to ensure our performance measurement focuses on highlighting how our work can contribute to policy and behavioural changes as a precursor to having an impact or influence on lifting wellbeing and productivity. This refinement also looked at how we could better discern and describe evidence of impact in a range of other indicators such as the level of discussion and debate around our work, whether and how key influencers are responding to our work and engaging us in discussion; and, whether our work is widely used by people who are providing commentary or input to policy discussions. |
| **financial performance and funding discussions (Qns 123-124)** |
| The Committee notes that the Commission has reported a deficit for 2017/18, due in large part to the high complexity of one its recent inquiries. We also note that the Commission is discussing funding levels and desired outputs with the Government |
| 123 | Was the greater complexity of the Transitioning to a low-emission economy inquiry an outlier, or does the Commission expect its inquiries to be of a similarly high-level of complexity in the future? | In the case of the *Low-emission’s economy* inquiry there was a need for skillsets and knowledge in such areas as financial and economic modelling and this did require the Commission to identify and procure this expertise, at market rates, from specialist external sources. The Commission generally tends to receive complex and challenging mandates from Government. We don’t, however, know what areas future topics might be focused on and as such it is difficult to assess whether the *Low-emission’s economy* inquiry is an outlier in regard to complexity or not.  |
| 124 | What changes to the Commission’s outputs are being considered in the discussions with Government of its funding levels and desired outputs, and what impact are these expected to have on the way the Commission carries out its role? | Changes to outputs, i.e. inquiries and research into productivity-related matters, are not part of the Commission’s discussions with Government on its funding levels.  |