

28 March 2019
Hon Grant Robertson
Minister of Finance

Dear Minister,

Triannual Report – 1 November 2018 to 28 February 2019

I am pleased to submit the Commission's second triannual report for the 2018/19 year. While intended to cover the reporting period 1 November 2018 to 28 February 2019, this report also comments on matters outside of the reporting timeframe where relevant.

On 6 November 2018, the Commission released its issues paper for the *Local government funding and financing* inquiry. 131 submissions have been received and meetings held with over 60 organisations across the country. The draft report will be released in June 2019 as planned.

Work has commenced on a new inquiry into *Technological change, disruption and the future of work* and we will be releasing an issues paper in April 2019 to aid public engagement in the inquiry.

The Commission's research outside of our inquiries continues and we completed our joint project with the Australian Productivity Commission into growing the digital economy on 31 January 2019. The report was central to the Prime Ministers of Australia and New Zealand leaders' meeting and resulted in a number of actions for the Single Economic Market agenda.

Given a constrained funding environment for our research activities generally, the Commission is in the process of refocusing and reprioritising our research efforts to ensure these are sustainable in the short-to-medium term. Examples include stepping back from servicing the Productivity Hub, coordinating less cross-agency work using the Longitudinal Business Database (LBD) and withdrawing our in-kind contribution to the Government Economics Network. The Commission is concerned with the level of investment into LBD research across government and see a risk of this database becoming a stranded asset and would welcome the opportunity to discuss this asset and our research function in more detail.

The Commission's expenditure tracked \$279k under budget for the reporting period and is forecasting a surplus of \$135k at the end of the financial year. This result is driven by the timing and sequencing of projects across the inquiries work programme. In effect, we have only had one significant inquiry work programme running during the current year (i.e. the *Local government* inquiry) as the *Technology and work* inquiry has only recently begun. Our budgeting assumptions are built around running two full inquiry work programmes during the year.

We would be pleased to meet with you to discuss the Commission's performance, and we remain open to any feedback to assist us to improve the value of our reporting to you.

Yours sincerely,



Murray Sherwin
Chair

Triannual Report: 1 November 2018 to 28 February 2019

Report structure

- Operational delivery
- Financial performance
- Capability
- Priorities and issues ahead

Operational delivery

This table is a high-level summary of our operational delivery. Green indicates progress according to schedule; orange indicates delays or other issues.

	Status	Comment
Inquiries		<p>On 6 November 2018, the Commission released its issues paper for the <i>Local government funding and financing</i> inquiry. 131 submissions have been received. The Commission is conducting engagement meetings across the country until the end of April. This will inform our draft report which will be released in June.</p> <p>In February 2019, the Commission published the final piece of our evaluation of the <i>Low-emissions economy</i> inquiry: an expert review by Dr Wendy Craik.</p> <p>On 28 February 2019, the Commission received its terms of reference for a new inquiry into <i>Technological change, disruption and the future of work</i>.</p>
Research		<p>The Commission is in the process of refocusing and reprioritising our research efforts to ensure these are sustainable in the short-to-medium term. Examples include stepping back from servicing the Productivity Hub, less cross-agency work using the Longitudinal Business Database (LBD) and withdrawing in-kind support of the Government Economics Network. We are also likely to discontinue our financial contribution to the OECD's Global Forum on Productivity. The Commission is especially concerned with the level of investment into LBD research across government and see a risk of this database becoming a stranded asset.</p> <p>Despite a constrained funding environment for our research activities, the team have remained very active. We contributed to the Productivity Research Network Task Force and provided the New Zealand data for a report comparing firm-level data: Productivity in developed Asia-Pacific countries: a firm-level perspective (December 2018).</p> <p>On 31 January 2019, the Commission delivered its report with the Australian Productivity Commission into <i>Growing the digital economy in Australia and New Zealand</i> to Ministers for the annual Australia-New Zealand Leaders' Meeting on 22 February.</p> <p>On 31 January 2019, the Commission released its report into <i>Job creation and firm dynamics: revisiting the perpetual motion machine</i>.</p> <p>The February edition of <i>Policy Quarterly</i>, a journal for New Zealand policymakers, included two articles from the Commission: <i>The tax-</i></p>

		<i>benefit interface</i> and <i>Innovation in primary health care</i> , which made use of the longitudinal aspects of the LBD.
Promoting understanding		The Commission continues to promote understanding of productivity related matters through public speaking. Recent presentations have covered the <i>Low-emissions economy</i> inquiry, taxation and the labour income share. Planning for the next Government Economics Network (GEN) conference in December 2019 is underway and Philip McCann (University of Sheffield and co-director of the UK's Productivity Insights Network) will be the keynote speaker. As noted, the Commission will withdraw our in-kind support to GEN this year.

Inquiry: Local government funding and financing

	Status	Comment
Right focus		<p>On 6 November 2018, the <i>Local government funding and financing</i> issues paper was released. The Commission received an overwhelming response with 131 submissions received.</p> <p>We have worked with LGNZ to meet with a range of local authorities through their zone and sector meetings, completing meetings with Hamilton and Dunedin which produced valuable discussions on key issues. We have also completed over 60 engagement meetings with other councils, business groups and submitters and the team has attended 3 local government conferences/seminars.</p>
Good process management		<p>The work programme is on track with the issues paper published on 6 November 2018, 131 submissions received, and meetings held with over 60 organisations to date. The draft report will be released in June 2019 as planned. Several consultants have also been contracted to provide expert advice on specialist issues.</p> <p>The team periodically meet with a group of cross-government agencies that is convened by DIA. This provides the inquiry team with visibility of the other work programmes progressing across government that have a bearing on this inquiry.</p>
High-quality work		<p>The inquiry team are gathering evidence from multiple submissions, engagement meetings, conference events, research, and workshops. We have also arranged four case studies to “get beyond the averages” and dive deep into some specific issues facing different councils.</p> <p>Four consultancy projects have been commissioned to feed into our draft report. The consultants are Sapere Research Group, Capital Strategic Advisors Ltd; OliverShaw and Insight Economics.</p> <p>The draft report is another opportunity to receive review and feedback from the local government sector and wider stakeholder group. Another round of submissions and engagement will be carried out before finalising our report in November 2019. This is an integral part of our process and inexorably provides a lift in quality.</p>
Effective engagement		We are undertaking an ambitious round of engagement across the country with the local government sector and wider stakeholder group. This includes LGNZ convened zone/sector meetings, “cluster meetings” of councils around the

		country, and workshops with provisional chambers of commerce members, infrastructure providers, farming groups, and iwi groups. There has been a gratifyingly large turnout (40+people) at these engagement events.
Clear delivery of message		<p>The draft report will be carefully drafted and formatted to ensure that messages are clear and accessible, acknowledging the wide range of viewpoints. Diagrams will be used to help convey complex information. All chapters will be reviewed by an external editor, in addition to our internal quality assurance and editing processes to ensure clarity and accessibility.</p> <p>A number of communication products will be developed to assist with communicating key messages arising from the draft report, including a one-page "At a glance" summary, a four-page "Cut to the chase" and 15-page Overview.</p>

Previous inquiries

In February 2019, the Commission received the [government's response](#) to our recent *Measuring and improving state sector productivity* inquiry, but note that formal government responses are yet to be received for the following inquiries: *Low-emissions economy*, *Better urban planning*; and, *Boosting services sector productivity*.

The Commission published the final piece of our evaluation of the *Low-emissions economy* inquiry in February: an expert review by Dr Wendy Craik. This table is a top-level summary of her review and the full evaluation (including focus group and participant survey) is available on the Commission's website at www.productivity.govt.nz/lowemissions.

	Status	Comment
Right focus		<p>Dr Craik noted that "the Commission clearly outlined the task and the global background, took into account the current state of play and New Zealand's distinctive emissions profile, commissioned quite extensive modelling of different scenarios and came up with recommended transformations of high emitting sectors which are significant in both scale and scope in the timeframes envisaged. "</p> <p>She noted that "the report will provide a seminal reference point for considerations of low emissions strategies for New Zealand for government, industry, business and households and individuals".</p> <p>While acknowledging that in such a broad inquiry not everything can be covered, Dr Craik said that more analysis could have been undertaken of the political economy of climate change mitigation, along with the behavioural and attitudinal change required. Also what the government might need to "sell the story".</p>
Good process management		The extensive modelling and engagement with a broad range of stakeholders made for a generally high degree of satisfaction with the process. Overall, Dr Craik stated the inquiry process was "managed very effectively".
High-quality work		Dr Craik notes that "the structure and writing in the report, the clarity, the presentation of complex modelling, the consultation process and use of external material, the thorough analysis of the economy and the impacts of decarbonising it, make this a document on which people can rely. This is critical given the gravity of the recommendations"

		<p>And goes on to say “Low-Emissions Economy is a high-quality report of which the authors should be proud. It is an impressive analysis of transitioning an economy in a major way over a relatively short period and the unprecedented (for the Commission) interest in it and the post report feedback confirm this. It will obviously make a major contribution to the debate about New Zealand’s approach to emissions reduction and will likely be the benchmark against which other contributions on this topic are assessed.”</p> <p>A key suggestion was an external peer review of modelling work to help reassure the Commission and public that the conclusions are robust.</p>
Effective engagement		Dr Craik summarised that “The Commission clearly made a significant effort to engage a diverse range of stakeholders and succeeded admirably in doing so”.
Clear delivery of message		Dr Craik concludes that the final report is comprehensive and clearly written, with excellent graphics and a logical flow of analysis – “a seminal study for emissions reduction in New Zealand of value to all stakeholders”. However, Dr Craik felt that “even though this is excellently written, the length is a bit daunting.”

Research

The Commission is in the process of refocusing and reprioritising our research efforts to ensure they are sustainable in the short-to-medium term. For example, we are stepping back from servicing the Productivity Hub, coordinating less cross-agency work using the Longitudinal Business Database (LBD) and withdrawing our in-kind contribution to the Government Economics Network. We are also likely to discontinue our annual financial contribution to the OECD’s Global Forum on Productivity. The Commission is especially concerned with the level of investment into LBD research across government and see a risk of this database becoming a stranded asset.

During the reporting period, we contributed to the Productivity Research Network Task Force and provided the New Zealand data for a report comparing firm-level data: [Productivity in developed Asia-Pacific countries: a firm-level perspective](#) (December 2018).

In February, we published [Firm dynamics and job creation: revisiting the perpetual motion machine](#). This research used Statistics New Zealand’s LBD to investigate firm mortality and employment growth in New Zealand, including an analysis of “digital” firms” used to inform our report into *Growing the digital economy*.

The Commission contributed two articles to the February 2019 edition of *Policy Quarterly*, a journal for New Zealand policymakers. The articles were:

- ***The tax–benefit interface*** - modelling the effective marginal tax rates contained in f the current tax-transfer system.
- ***Innovation in primary health care*** - investigating whether innovation can improve health sector productivity and health.

We have also been conducting research into how and why patterns of industry employment change have differed across cities and investigated industries that have managed growth in regional cities. By better understanding the process of growth and development across New Zealand’s cities, we hope to use this work to build a strong evidence base for regional development policy.

Growing the digital economy: joint project with the Australian Productivity Commission

Our [final report](#) was delivered to the Prime Ministers of Australia and New Zealand on 31 January 2019 for discussion at the annual leaders' meeting on 22 February 2019. The report was central to the leaders' meeting and resulted in a number of actions for the Single Economic Market (SEM) agenda. [See the Prime Ministers joint statement here.](#)

There was some media commentary suggesting that our report undermined the NZ technology sector. To manage any misconceptions, we wrote an article for Newsroom *Just what is the digital economy?* It explains the Commission's report is mostly about consumers and firms (especially SMEs), and the opportunities arising for both from the digital transformation of the economy. A major message of our report is that the *digital economy* is the sum total of economic activity conducted or facilitated through digital technologies. Our report suggested additions to the SEM agenda including streamlining trade compliance, improving cross-border consumer protection, moving ahead with electronic invoicing and trans-Tasman sharing of credit histories, and wider recognition of digital identities. The suggestions for action in the report will make a measurable difference to the Australian and New Zealand economies, and will create opportunities for innovative firms, including those in the tech sector.

Promoting understanding

We have been promoting understanding of productivity issues through an extensive presentation programme to a wide range of audiences, across both our inquiry and non-inquiry work:

- The *Low-emissions economy* inquiry has continued to attract a number of invitations to present. The Chair delivered presentations to Infrastructure New Zealand, GEN Conference 2018, IOD Auckland, Grasshopper Hawkes Bay group and the Pan Pacific Fibre Value Chain Conference.
- Staff gave other presentations on the future of tax in New Zealand and on the labour income share, spatial productivity analysis, and an agenda for firm-level research at the Labour, Employment and Work Conference 2018.
- The *Local government funding and financing* inquiry has also attracted invitations to speak, including to the Business NZ Corporate Affairs Group.

Financial performance

The Commission tracked \$279k under budget for the reporting period. As noted earlier, the majority of the Commission's annual operating budget is directed towards producing inquiry outputs. The lower than anticipated expenditure for the year-to-date (YTD) is driven by the timing and sequencing of projects across the inquiries work programme. The key variable in this regard is the lower than anticipated, to date, expenditure on specialist consultancy advice to support the inquiries. In effect, we have only had one significant inquiry work programme during the current year (i.e. the *Local Government* inquiry) as the *Technology and work* inquiry only recently began (28 February 2019,) while our budgeting assumptions are built around running two full inquiry work programmes during the year. We have also underspent in personnel due to the carrying of a vacancy for a senior position in the research team. Recruitment for this position is planned in the near future. Given the operating result for the YTD, the Commission is forecasting a surplus of \$135k (2.7% of annual revenue) at the end of the year.

The following tables provide a summary of financial performance across the Commission, and in output areas, for the reporting period:

All financial activity

Financial performance (\$000's)	8 months to February 2019		2018/19 Year forecast
	Actual	Variance to budget	
Income	3,434	(3)	5,139
Expenditure	3,086	282	4,977
Net surplus	348	279	135
Total equity			1,186

Output cost breakdown

Output performance (\$000's)	Actual (8 months to end- February 2019)	Variance to budget (8 months to end- February 2019)	Allocation remaining (full year)
Inquiries	2,734	238	1,765
Research	352	44	291

Capability

Dr Patrick Nolan is now the Acting Director of our Economics & Research team. Paul Conway, Director of Economics & Research, left the Commission in February after a six-month unpaid sabbatical, to take up a consultant economist job at the Bank of New Zealand. Paul's departure has created a vacancy for a researcher that we plan to recruit for in the near future.

Reece Pomeroy has joined the Economics & Research team on a part-time basis to work on *Productivity by the Numbers* and other projects to assess New Zealand's productivity performance. Reece has recently started a PhD on "competition and firm mark-ups" using the longitudinal business database, which is very relevant to the Commission's interests.

In January, Principal Adviser Sandra Moore finished her secondment with us for the *State sector productivity* inquiry and returned to the Ministry of Social Development.

Priorities and issues ahead

On the horizon for the next triannual period (March – June 2019) and beyond:

- In April 2019, we will release an issues paper to aid public engagement in our inquiry into *Technological change, disruption and the future of work*.
- The Commission aims to release its research on regional employment shares in April 2019. As usual, this material will be shared with your office at least one week before its release and we are happy to discuss alternative timing if requested.
- The Commission will be releasing an update of the report *Productivity by the Numbers* in April 2019. This will discuss New Zealand's productivity performance at the level of the whole economy, sectors, and individual industries. It will illustrate trends in New Zealand's productivity performance through time and compared to other OECD countries. We will share this material with your office at least one week prior to release and are happy to discuss alternative timing if requested.
- The draft report for the *Local government funding and financing* inquiry will be released in June 2019.
- The Commission will shortly initiate a three-month IT project to upgrade our electronic document management system. The project will simplify its structure, revamp the current time-consuming approach for entering metadata, and update the business requirements for managing records associated with our research work.