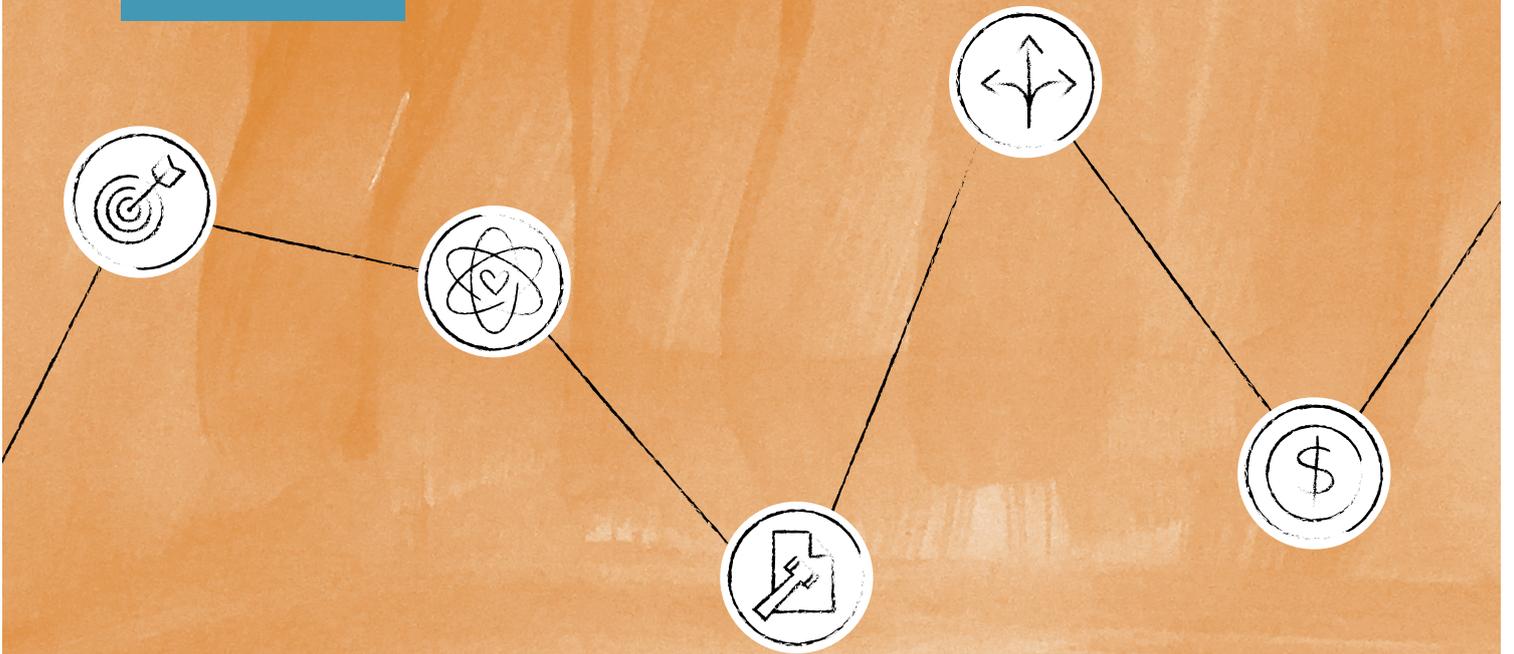


New Zealand  
Productivity Commission

# Statement of performance expectations

2020–21



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

NEW ZEALAND  
PRODUCTIVITY COMMISSION  
Te Kōmihana Whai Hua o Aotearoa



**New Zealand Productivity Commission**  
**Te Kōmihana Whai Hua o Aotearoa<sup>1</sup>**

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 NZ Productivity Commission

1. The Commission that pursues abundance for New Zealand.

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# 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, 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.** The goal is to contribute to a more prosperous, secure and healthy society. **By lifting productivity, average incomes can increase and, as an associated outcome, the wellbeing of New Zealanders can be further lifted.** Wellbeing is a wide concept that includes economic, social, cultural and environmental benefits of living in New Zealand.
- Our independence means that our analysis and recommendations are intended to be **evidence-driven and apolitical**. Independence also enables us to **work across government agencies and policy portfolios** to give advice on difficult and often politically sensitive topics.
- We **engage deeply and collaboratively** on complex matters with and across agencies and organisations to ensure our work is relevant, useful and contributes to an improved understanding of productivity.
- To date we have **completed 14 inquiries** making over **500 policy recommendations**, produced a large body of research into productivity-related issues and communicated the findings to a wide range of audiences.
- Our current inquiry is focused on identifying **policies and interventions that could maximise the economic contribution of New Zealand's frontier firms**. This work is scheduled to conclude in 2020–21.
- Given COVID-19, decisions on a second inquiry topic were deferred. In the meantime, the Commission is providing support to the Treasury as they develop advice for the Government on strategies and policies to rebuild the economy post-COVID-19.
- In addition to our inquiry work, we will continue with **self-initiated research on the factors influencing New Zealand's aggregate productivity performance**. This involves working closely with other government agencies and academic researchers in New Zealand and overseas.
- We have developed a **new Diversity and Inclusion Action Plan to ensure success in incorporating greater levels of diversity in our work**. Our initial focus will be on a baseline workplace profile, awareness and education tools and strategic human resource approaches.
- Our work has been influential on a number of fronts. We continue to look for opportunities to **promote understanding of productivity-related matters and to influence, promote and raise the quality of public policy and dialogue** to support improvements in New Zealand's overall economic performance.

# Statement of responsibility

This document constitutes our *Statement of performance expectations* 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. This *Statement* covers a one-year period between 1 July 2020 and 30 June 2021. It should be read in conjunction with the Commission's *Statement of intent 2020–24*.

The Board is responsible for the content of this *Statement*, which comprises the

reportable outputs and the prospective financial statements for the year, including the assumptions on which they are based, and the judgements used in preparing them.

The prospective financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

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 2020



**Andrew Sweet**  
Commissioner & Assurance  
Committee Chair  
June 2020

# Chair's message



Our *Statement of performance expectations* details how we will demonstrate progress, during the 2020–21 year, towards achieving our strategic objectives of lifting productivity and the wellbeing of New Zealanders. It accompanies our current *Statement of intent 2020–24* which provides further information on the overall direction of the Commission and our strategic objectives.

The Commission provides evidence-based, high-quality analysis and advice about ways to improve productivity in New Zealand. Over our nine years of operation, the Commission has completed 14 “deep-dive” inquiries into a wide range of topical areas assigned to us by Ministers, making over 500 policy recommendations. We have published a significant body of research and continue to share our insights to improve the understanding of productivity-related matters. Our work is actively evaluated as we look for new ways to improve our processes and products.

In 2018, the Commission came under review to ensure it remains relevant and fit for purpose. As the new Minister of Finance, Hon Grant Robertson sought advice on the role and performance of the Productivity Commission. The New Zealand Treasury commissioned a subsequent **review by Dr David Skilling** which provided several useful observations and suggestions on improving the Commission’s impact. Most importantly, was the recommendation that the Commission’s future work should have a closer focus on the sources of New Zealand’s low productivity. By looking at the “bigger-picture” – the factors impeding New Zealand’s “macro” productivity performance and identifying what policies could best resolve these – the Commission could strengthen its contribution to productivity outcomes. Implementing

such a change would shift the criteria employed in choosing inquiry topics and put greater emphasis on the work of our small Economics & Research team. In particular, our work would be more directly focused on macro-productivity issues, with inquiry topics aligned to the broader productivity challenges that New Zealand faces. The Commission welcomed this suggestion and we are pleased to see our work refocused.

The assignment of our new inquiry into *Maximising the economic contribution of New Zealand’s frontier firms* reflects this change, with a focus on investigating the drivers to firm productivity that could lift productivity. This change also calls for us to adapt our way of working. This year we expect to build on our traditionally linear inquiry approach, by introducing new methods of engagement and producing a shorter more focused draft report that is supported by a stream of complementary research outputs. We will also look to adapt our communications approach by introducing new material for publication to more effectively communicate with our target audiences. We will keep a strongly qualitative approach to our performance evaluation, employing published peer reviews, focus group insights and stakeholder surveys.

New Zealand and the rest of the world is currently in the midst of the global COVID-19

pandemic. We expect this virus to have a major and prolonged impact on the world's economies and therefore the wellbeing and living standards of populations everywhere. How well New Zealand manages both the health and economic policy response will heavily shape our absolute and relative wellbeing for decades to come. Our research has shown that periodic shocks to national output, such as we are now experiencing, have enduring negative impacts on productivity and therefore on incomes, employment and wellbeing.

The Commission has been supporting core government agencies as they develop economic advice for the Government on COVID-19. We think that offering the high-quality analytical skills and knowledge of our staff is the most effective use of our capabilities at this time. To this end, the Commission has established a work programme with Treasury that will focus on strategies and policies aimed at getting New Zealand through the COVID-19 emergency with the least possible degree of disruption, and back on a sustainable economic recovery path as quickly as possible.

I have previously drawn attention to the increasing budget pressure on the Commission. Our budget has been unchanged since the Commission was established. Over time our resources are under increasing pressure as operating costs increase. Above all, the constrained funding limits our capacity to pursue obvious opportunities to add substantial value. Whilst it is currently not the right time to pursue additional funding, we will continue to adjust the mix and volume of our outputs in order to make the most of our available resources. Most recently this has included reducing the size of our research team and stepping back from servicing the Productivity Hub and coordinating less cross-agency research work using the Longitudinal Business Database.

During the 2020–21 year there will be some changes to the Commission's Board. Commissioner Professor Sally Davenport completed her appointment at the end of March 2020, and we expect to welcome a new Commissioner during the year. I would like to thank Sally for her outstanding service as an establishment Commissioner and latterly as Chair of our Assurance Committee. Her background in science, research, innovation and education has been highly relevant and valuable. It has been a great pleasure to have Sally contribute to our work and we wish her well for the future.

This year will be my last at the Commission as I complete my appointment as Chair at the end of January 2021. It has been an absolute privilege to develop and lead the Commission and I am grateful to have had this very special opportunity. The "productivity challenge" has been with us for a very long time. An independent agency dedicated to examining the factors that influence productivity performance and committed to public communication on productivity matters is not the only way to approach the challenge. But used well by Ministers, it can make a real difference and be a key contributor to better productivity performance.

The success of the Commission is built on its people and I would like to take this opportunity to thank the ProdCom team, both staff and Commissioners, for the high-quality work, dedication, energy and good humour that each one has contributed.



**Murray Sherwin**

Chair

June 2020

# Our work

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.

The Commission provides evidence-based, high-quality analysis and advice about ways to improve productivity in New Zealand. We aim to contribute to lifting productivity and the wellbeing of New Zealanders, as well as increase the public and political understanding of productivity related issues. Improving productivity is essential to raising wellbeing and ensuring sustainable economic growth in New Zealand.

Our annual work programme focuses on undertaking inquiries into and research on, and promoting public understanding of, productivity-related matters. The Commission would normally work on two inquiries in parallel during a financial year. We have one current inquiry focused on identifying policies and interventions that could maximise the economic contribution of New Zealand's frontier firms. Due to COVID-19, the Government has refrained from assigning another inquiry topic to the Commission at present. In the meantime, we have established a work programme with Treasury that will focus on strategies and policies aimed at getting New Zealand through the COVID-19 emergency and back on a sustainable economic recovery path as quickly as possible.

## Undertaking inquiries

Inquiries are big pieces of analysis, typically with a 12–15-month timeframe. The time allowed recognises the importance of engaging extensively with interested parties to ensure we can be exposed to all points of view, get the best available information, 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

We self-select research and publish papers to provide new insights and evidence on which to base advice that can improve New Zealand's productivity performance. This work includes undertaking and publishing an annual benchmarking exercise to track New Zealand's productivity performance over time – it's titled *Productivity by the numbers*. We also work closely with agencies who are active in productivity research, including serving as the external member of MBIE's strategic policy advisory group.

## Promoting understanding

Promoting understanding of productivity-related matters takes many forms besides our communications activities around inquiries and research. We regularly host and contribute to presentations on productivity-related research from academics and government departments. We speak about productivity issues to a diverse range of sectors and use multimedia and social media to engage with different audiences.

# How we will measure our performance

## How we make a difference: our outcomes framework

As noted earlier 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.

Through our inquiry reports and research outputs, the Commission:

- explores the causes of New Zealand's weak productivity performance;

- identifies the 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. The below diagram illustrates our outcomes framework and highlights how we expect to make a difference, along with the core capabilities and the reputation we wish to develop.

## 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

#### Our impacts

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

#### What we do

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

#### 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 core capabilities

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

Due to the complex nature of productivity issues, the influence of our work will generally only emerge over long timeframes. As such it can be challenging to identify changes in productivity performance or wellbeing that can be directly attributed to our work as distinct from the many other factors that influence productivity performance.

Central to our impact and influence is the Commission's comprehensive public engagement process. During each inquiry, the Commission engages widely with a diverse group of interested parties. The participative nature of our inquiries means that stakeholders can have a direct input and influence on the Commission's recommendations – both draft and final. The Commission can meaningfully engage with interested parties on specific policy issues and test ideas for improvement. Identifying areas in which policy settings can be made better to enhance productivity and wellbeing is at the heart of the Commission.

### How we measure progress: our evaluation against the framework

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 our performance. The box below sets out the key elements of this approach.

**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 broad set of questions covering multiple aspects of our work, such as the quality of our analysis and the clarity of our communication.

**Stakeholder focus group(s)** of about 6–10 attendees from different backgrounds,

To ensure comparability the expert review, participant survey, and stakeholder focus group use the same performance dimensions (while ensuring flexibility for other feedback is provided), including:

**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

An independent expert review takes place after each inquiry has been completed. For our research work, a review takes place every two years and evaluates work during that period. No focus groups are convened as they are not as well-suited to evaluating our research work.

The survey of external participants for inquiries focuses on aspects of the inquiry's

independently facilitated and without Commission attendance.

**Monitoring external feedback and internal workflow processes** to capture, share and evaluate feedback received and obtain other relevant monitoring data (eg, national-level productivity and wellbeing indicators), and external responses to our work in the media, Parliament, and other relevant fields of activity.

[Note: all performance evaluation reports are published on the relevant inquiry page of our website.]

performance, whereas the bi-annual research survey assesses perceptions of the Commission’s research performance by our research community.

### Where we evaluate: our approach to performance measurement

The Commission is an independent research and advisory body and does not run nor implement any policies or programmes. The Government is under no obligation to implement Commission recommendations nor to respond to our reports. We rely solely on the power and communication of our ideas and analysis to influence and shape policy. 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, public and political consideration of our work.

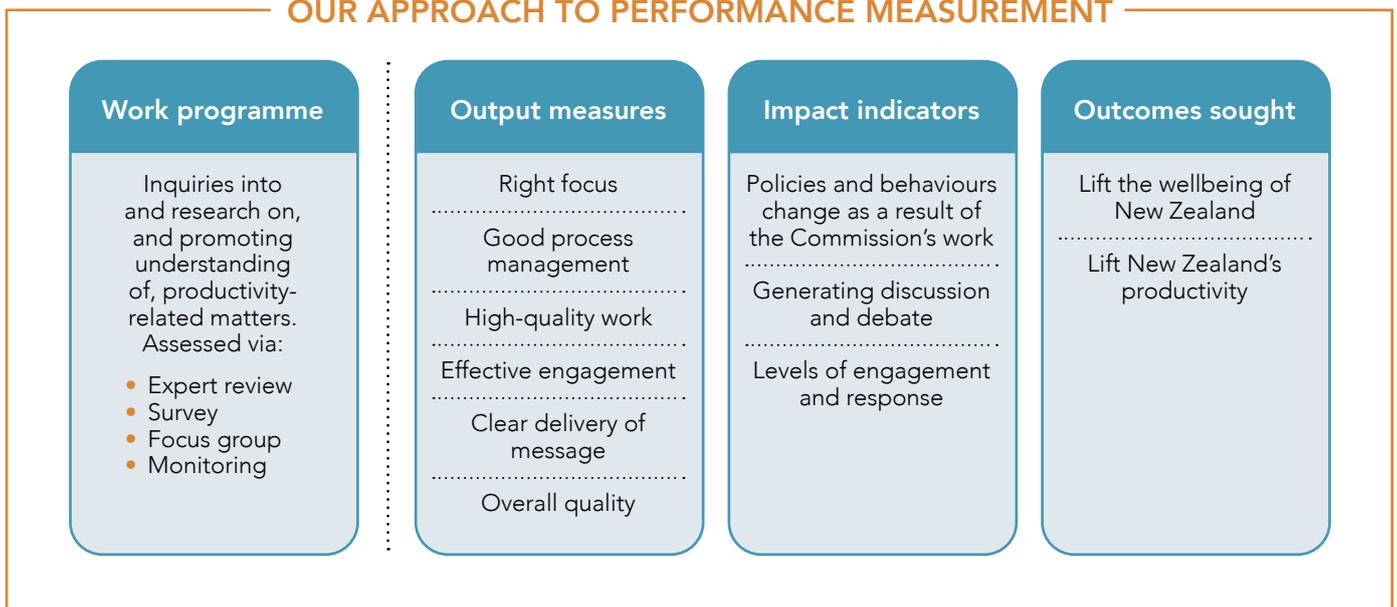
It is not enough for the Commission to simply produce reports. The analysis and commentary in our reports should be disseminated, understood and influence policy and other behaviours so that, in the long term, productivity improves.

It is within this context that we discuss the impact of our work across the following three broad performance indicators:

- **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 the policies and programmes that could lead to improved productivity and wellbeing.
- **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.
- **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.

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

## OUR APPROACH TO PERFORMANCE MEASUREMENT



## Reporting on our outcomes

While many aspects of New Zealand’s performance are positive, there are important areas where the economy continues to underperform. New Zealand is, for example, just one of a small number of OECD countries who have had both low levels and growth of labour productivity since 1996. Our labour productivity stubbornly remains around 20 per cent below the OECD average, which translates into below average incomes (even with high labour utilisation) and comes at a real cost to living standards.

Understanding New Zealand’s productivity performance, and how to best improve it, requires practical insights into the New Zealand economy. New Zealand is not a typical OECD economy and our path to success will differ to that of larger and more centrally located economies. It is necessary to understand the role played by features of the economy such as industry structure, distance from trading partners, availability of capital, and small size of domestic markets. Through our inquiry, research and outreach functions the Commission plays a key role in developing such an evidence base.

We noted earlier the challenge for the Commission of identifying changes in New Zealand’s productivity performance and attributing that directly to our work. Our influence may be direct and immediate (through accepting and adopting our recommendations) or it may occur over longer periods (after academic, media and community consideration of our work). Given our role, therefore, the influence of our work on lifting wellbeing and productivity levels may only emerge over long timeframes.

We have, however, learnt much about why productivity matters, what affects productivity in New Zealand, and what policy options could improve productivity performance. These learnings will continue to be represented in periodic Commission reports that comment on New Zealand’s productivity performance and its implications for wellbeing. Such reporting is an important part of our research work over time while also helping to ‘join the dots’ between different inquiries and research projects. More detail on our approach to measurement at the outcome level is provided below:

Outcome(s)	Measure	Assessment method
Lift the wellbeing of New Zealand; and, Lift New Zealand’s productivity	Volume and quality of <b>formal and informal research output</b> (eg, inquiry reports, research working paper series, and broader commentary on trends in New Zealand productivity and wellbeing such as our regular <i>Productivity by the numbers</i> report)	<p><b>A summary of performance evaluation material relevant to the year under review</b> (eg, expert reviews, surveys, and focus group reports of formal and informal outputs)</p> <p><b>Monitoring</b> and review of government responses to inquiries and Cabinet minutes, and ongoing follow-up with implementation agencies</p> <p><b>Monitoring</b> of media (including social media) commentary on formal and informal outputs</p> <p><b>Monitoring</b> of <i>Hansard</i>, Select Committee reports and citation tools on formal and informal outputs</p>

## Reporting on our impact indicators

As highlighted earlier our outcomes framework envisages that our work will contribute to policy and behavioural change as a precursor to having an impact or influence on our two main outcomes. In addition, we will also look for 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 and is cited in their discussions.

Impact(s)	Measure	Assessment method
Policies and behaviour change as a result of the Commission's work	Commission recommendations explored, agreed, and implemented <ul style="list-style-type: none"> <li>How many inquiry recommendations were agreed and implemented?</li> <li>How fully were the recommendations implemented or actively explored by the relevant policy makers?</li> </ul>	<b>Monitoring</b> and review of formal Government responses to inquiries and Cabinet Minutes, and ongoing follow-up with implementation agencies
	Understanding of productivity-related matters increases <ul style="list-style-type: none"> <li>% of inquiry participants surveyed who considered the inquiry had increased their understanding of the topic at least a little</li> <li>Expert review and focus group commentary on whether the inquiry increased understanding of the topic</li> </ul>	<b>Survey %</b>  Summary comments from <b>expert review</b> and <b>focus group</b>
Generating discussion and debate	Third party commentary on reports in the media: <ul style="list-style-type: none"> <li>Nature of comment (favourable, unfavourable, informed)</li> <li>Who commented</li> <li>How many people/groups commented</li> </ul>	Media (including social media) <b>monitoring</b> for a period of 2 weeks following the release of significant Commission reports (eg, inquiry reports)
	Citing of the Commission's work in Parliament, Select Committees, or in academic or other literature	<b>Monitoring</b> of <i>Hansard</i> , Select Committee reports & citation tools
Levels of engagement and response	Productivity analysis and advice improves: <ul style="list-style-type: none"> <li>% of inquiry participants surveyed who agreed or strongly agreed that the inquiry helped to set or lift the standard in New Zealand for high-quality analysis and advice on [the topic]</li> <li>% of inquiry participants surveyed who agreed or strongly agreed that they will use the inquiry report as a resource and reference in the future</li> </ul>	<b>Survey %</b>  <b>Survey %</b>
	Expert reviewer and focus group commentary on the quality of analysis and advice in the inquiry and if they will use the inquiry report as a resource and reference in the future	Summary comments from <b>expert review</b> and <b>focus group</b>
	Expert reviewer commentary on the extent to which the research work: <ul style="list-style-type: none"> <li>Helped set or lift the standard in New Zealand for high-quality analysis and advice on [the topic]</li> <li>Contributes to future work on [the topic] being better focused and use resource more effectively</li> </ul>	Summary comments from <b>expert review</b> and <b>focus group</b> Summary comments from <b>expert review</b> and <b>focus group</b>

## Reporting on our output measures

Below are the specific measures that we will use to assess our performance at the work programme level. This table shows how results will be reported and sets out all the measures that will be applied to the relevant work areas.

### OUTPUT MEASURE – Right focus

Dimension	Measure	Assessment method
Relevance and materiality of final inquiry reports	<p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> <li>• The Commission sourced all relevant research and information</li> <li>• The Commission engaged with the right people</li> <li>• The final report/research paper(s) focused on the issues most significant to [the topic]</li> <li>• The final report went into sufficient depth on the issues it covered</li> </ul>	Survey %'s; summary comments from <b>expert review</b> and <b>focus group</b>
Relevance and materiality of paper(s) within the research work reviewed	<p>The extent to which:</p> <ul style="list-style-type: none"> <li>• The Commission sourced all relevant research and information</li> <li>• The Commission engaged with the right people</li> <li>• The paper(s) focused on the issues most significant to [the topic] and went into sufficient depth on the issues it covered</li> </ul>	Summary comments from <b>expert review</b>

### OUTPUT MEASURE – Good process management

Dimension	Measure	Assessment method
The extent to which inquiry issues papers, draft reports and final reports, and paper(s) within the research work reviewed were delivered to schedule	<p>All external milestones communicated in the Commission's process planning are achieved:</p> <ul style="list-style-type: none"> <li>• Inquiry processes</li> <li>• Research processes</li> </ul>	<b>Monitoring</b> of milestones
Participant satisfaction with the inquiry process	Inquiry participants surveyed who agreed or strongly agreed that overall, they were satisfied with the Commission's inquiry processes	Survey %'s; summary comments from <b>expert review</b> and <b>focus group</b>
Satisfaction with the Commission's management of research processes	Participants in Commission research processes surveyed, and reviewer commentary, who agreed or strongly agreed that overall, they were satisfied with the Commission's approach	Survey %'s; and summary comments from <b>expert review</b>

## OUTPUT MEASURE – High-quality work

Dimension	Measure	Assessment method
Participant confidence in the Commission's inquiry findings and recommendations	Inquiry participants surveyed who considered the following aspects to be of good or excellent quality: <ul style="list-style-type: none"> <li>The inquiry's analysis of information</li> <li>The findings and recommendations</li> </ul>	Survey %'s; summary comments from expert review and focus group
	Inquiry participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>The Commission's recommendations followed logically from the inquiry analysis and findings</li> </ul> <p>The Commission's recommendations would, if implemented, materially improve performance in [the topic area]</p>	Survey %'s; summary comments from expert review and focus group
The degree of reviewer confidence in research findings and conclusions	Reviewer commentary indicates the following aspects to be of good or excellent quality: <ul style="list-style-type: none"> <li>Information analysis of research papers</li> <li>Findings of research papers</li> </ul>	Summary comments from expert review
	Reviewer agreed or strongly agreed that: <ul style="list-style-type: none"> <li>Conclusions followed from analysis and findings</li> </ul>	Summary comments from expert review

## OUTPUT MEASURE – Effective engagement

Dimension	Measure	Assessment method
Participant perception of the quality of engagement by the Commission	Inquiry participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>There was ample opportunity to participate in the inquiry</li> <li>The Commission was approachable</li> <li>The Commission communicated clearly</li> <li>The Commission understood their views</li> </ul>	Survey %'s; summary comments from expert review and focus group
	Participants in Commission research processes surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>The Commission's approach was a positive contribution toward improved levels of coordination and collaboration in productivity research</li> </ul>	Survey %; and, summary comments from expert review
Engagement meetings held	Number of parties the Commission engaged with during the inquiry, as noted in the final report appendix	# of parties engaged with
Submissions received	Number of parties who made a submission during the inquiry, as noted in the final report appendix	# of parties who made a submission

## OUTPUT MEASURE – Clear delivery of message

Dimension	Measure	Assessment method
Participant perception of the effectiveness of the Commission's communication of inquiry and research findings and recommendations	<p><b>Inquiry</b> participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> <li>• The findings and recommendations were clear</li> <li>• The style of writing and language used in the report was clear</li> <li>• The summary material provided was useful</li> </ul>	Survey %'s; summary comments from <b>expert review</b> and <b>focus group</b>
	<p>Reviewer commentary on <b>research</b> papers indicates that:</p> <ul style="list-style-type: none"> <li>• The conclusions were clear</li> <li>• The style of writing and language used was clear</li> <li>• Paper(s) provided clarity about steps leading on from the research</li> </ul>	Summary comments from <b>expert review</b>

## OUTPUT MEASURE – Overall quality

Independent expert evaluation of the overall quality of the inquiry	A report evaluating the overall performance of the inquiry from the final inquiry report (taking into account the focus of the report, process, analysis, engagement and delivery of message) with recommendations for future improvements	Summary comments from <b>expert review</b>
Independent expert evaluation of research work	A report evaluating the overall quality of the package of research work (taking into account the focus of the research work, process, analysis, engagement and delivery of message) with recommendations for future improvements	Summary comments from <b>expert review</b>
Focus group evaluation of inquiry	Report from a focus group representative of inquiry participants, facilitated by an independent person with significant experience in inquiry-type work with feedback on the inquiry and recommendations for future improvements (taking into account the focus of the report, process, analysis, engagement and delivery of message)	Summary comments from <b>focus group</b>
Participant evaluation of inquiry	<p>Percentage of inquiry participants surveyed who rated the overall quality of the inquiry as good or excellent (taking into account the focus of the report, process, analysis, engagement and delivery of message)</p> <p>[Note: participants who rated the overall quality of the inquiry positively, as acceptable, good or excellent (a less demanding standard than the performance measure).]</p>	Survey %

# Summary of output funding and costs

We are funded to undertake inquiries into and research on, and promote public understanding of, productivity-related matters.

Earlier in this *Statement* we described our work programme outputs, what we intend to achieve regarding these outputs, and how we will measure the performance of our outputs.

The table below sets out our forecast output funding and costs. Our forecasting assumes two inquiry teams running at any point in time (noting there may be overlap of additional inquiries in practice) and allocating common corporate costs as appropriate.

Output (years ending 30 June)	Updated forecast 2019–20 \$000	Forecast 2020–21 \$000
<b>Inquiries</b>		
Revenue	4 491	4 403
Expenses	(4 491)	(4 403)
Net surplus (deficit)	-	-
<b>Research and promoting understanding</b>		
Revenue	642	629
Expenses	(642)	(629)
Net surplus (deficit)	-	-
<b>Total outputs</b>		
Revenue	5 133	5 032
Expenses	(5 133)	(5 032)
Net surplus (deficit)	-	-

# Prospective financial statements for 2020–21

## Introduction

These prospective financial statements have been prepared in accordance with generally accepted accounting practice for public sector public benefit entities. Their purpose is to facilitate consideration by Parliament of the planned performance of the Commission. The use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented and that the variation may be material.

These prospective financial statements have been prepared on the basis of assumptions about future events that the Commission reasonably expects to occur as at the date the information was prepared. It is not intended that this information will be updated.

## Assumptions

The following assumptions have been used in preparing these prospective financial statements:

- The Commission will continue to operate in its current structure and form.
- The Commission's statutory functions will remain unchanged.
- Revenue from the Crown of \$5 030 000 will be available for the 2020–21 year.
- There will be no change in premises occupancy.

- Externally driven costs will increase by no more than the rate of inflation.
- There will be no unexpected external events (such as a natural disaster) that will require significant operating or capital expenditures to be incurred.

## Statement of accounting policies

### a) 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.

### b) Statement of compliance

These prospective 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"). These prospective financial statements comply with PBE accounting standards, being prepared in accordance with Tier 2 PBE accounting standards, as a PBE with expenses less than \$30m.

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Commission has applied these standards in preparing these prospective financial statements.

### **c) Measurement base**

The prospective financial statements have been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

### **d) Functional and presentation currency**

These prospective 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.

### **e) 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.

#### **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 Crown transactions

is considered to be non-exchange transactions.

The Commission is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose specified in the Appropriation.

#### **Other revenue**

Other revenue transactions including interest revenue and provision of services are exchange transactions.

#### **Interest**

Interest revenue is recognised using the effective interest method.

#### **Provision of services**

Revenue derived through the provision of services to third parties is recognised in proportion to the stage of completion at the balance date. The stage of completion is assessed by reference to surveys of work performed.

#### **Expenditure**

All expenditure incurred in the provision of outputs for the Crown is recognised in the surplus or deficit when an obligation arises, using an accruals basis.

#### **Leases**

The Commission is party to operating leases as lessee. As the lessors retain substantially all the risk and rewards of ownership of the leased property, plant and equipment, 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. At balance date, any unamortised incentive or outstanding obligation for reinstatement is recognised as a liability in the statement of financial position.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term-highly liquid investments with maturities of three months or less.

### **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.

### **Property, plant and equipment**

Property, plant and equipment consists of the following asset classes: information technology assets; furniture; office equipment; and leasehold improvements.

#### **Additions**

All items of property, plant and equipment owned are 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.

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably. Assets are capitalised if the purchase price is \$2 000 or greater. Items (such as chairs) with a lower individual cost are considered to be capitalised by being aggregated into the asset class. Work in progress is recognised at cost less impairment and is not depreciated. In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

#### **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	5 years
Leasehold improvements	5 years
Office equipment	5 years
Furniture	7 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.

### **Intangible assets**

#### **Software acquisition**

Acquired 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 useful life of intangible assets has been estimated as follows:

Purchased software	5 years
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#### **Impairment of property, plant and equipment and intangible assets**

The Commission does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return. Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

#### **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.

#### **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.

#### **Goods and services tax**

All items in the prospective financial statements are presented exclusive of goods and service 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 amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

#### **Income tax**

The Commission is a public authority and consequently is exempt from income tax under section CW 38 of the Income Tax Act 2004. Accordingly, no provision has been made for income tax.

#### **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)

#### **Cash flows**

The prospective cash flow statement is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive revenue and expense.

#### **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 judgements in applying accounting policies**

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

***Leases classification***

Determining whether a lease agreement is finance 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.

## Prospective statement of comprehensive revenue and expense for the year ending 30 June 2021

	Updated forecast 2019–20 \$000	Forecast 2020–21 \$000
<b>Revenue</b>		
Revenue from Crown	5 030	5 030
Interest revenue	1	2
Other revenue	102	-
<i>Total revenue</i>	5 133	5 032
<b>Expenditure</b>		
Personnel costs	3 435	3 558
Other expenses	1 663	1 447
Depreciation and amortisation expense	35	27
<i>Total expenditure</i>	5 133	5 032
<b>Net surplus/(deficit)</b>	-	-
Other comprehensive revenue and expense	-	-
<b>Total comprehensive revenue and expense</b>	-	-

The statement of accounting policies forms part of and is to be read in conjunction with the prospective statement of comprehensive revenue and expense.

## Prospective statement of changes in equity for the year ending 30 June 2021

	Updated forecast 2019–20 \$000	Forecast 2020–21 \$000
Balance at 1 July	953	953
<b>Comprehensive revenue and expense for the year</b>		
Surplus/(deficit)	-	-
<b>Owner transactions</b>		
Repayment of surplus	-	-
<b>Balance at 30 June</b>	<b>953</b>	<b>953</b>

The statement of accounting policies forms part of and is to be read in conjunction with the prospective statement of changes in equity.

## Prospective statement of financial position as at 30 June 2021

	Updated forecast 2019–20 \$000	Forecast 2020–21 \$000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1 383	1 434
Debtors and other receivables	61	49
<i>Total current assets</i>	1 444	1 483
<b>Non-current assets</b>		
Property, plant, and equipment	44	21
Intangible assets	5	-
<i>Total non-current assets</i>	49	21
<b>Total assets</b>	<b>1 493</b>	<b>1 504</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Creditors and other payables	233	243
Employee entitlements	187	199
Provisions	-	-
Surplus payable to the Crown	-	-
<i>Total current liabilities</i>	420	442
<b>Non-current liabilities</b>		
Lease incentive	53	41
Provisions	67	69
<i>Total non-current liabilities</i>	120	110
<b>Total liabilities</b>	<b>540</b>	<b>552</b>
<b>Net assets</b>	<b>953</b>	<b>953</b>
<b>Equity</b>		
Contributed capital	500	500
Accumulated surplus/(deficit)	453	453
<b>Total equity</b>	<b>953</b>	<b>953</b>

The statement of accounting policies forms part of and is to be read in conjunction with the prospective statement of financial position.

## Prospective statement of cash flows for the year ending 30 June 2021

	Updated forecast 2020 \$000	Forecast 2021 \$000
<b>Cash flows from operating activities</b>		
Receipts from Crown	5 030	5 030
Interest received	1	2
Receipts from other revenue	153	12
Payments to suppliers	(1 782)	(1 444)
Payments to employees	(3 411)	(3 546)
Goods and services tax (net)	(11)	(3)
<i>Net cash flow from operating activities</i>	<i>(20)</i>	<i>51</i>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(39)	-
Purchase of intangible assets	-	-
<i>Net cash flow from investing activities</i>	<i>(39)</i>	<i>-</i>
<b>Cash flows from financing activities</b>		
Capital distribution	-	-
<i>Net cash flow from financing activities</i>	<i>-</i>	<i>-</i>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(59)</b>	<b>51</b>
Cash and cash equivalents at the beginning of the year	1 442	1 383
<b>Cash and cash equivalents at the end of the year</b>	<b>1 383</b>	<b>1 434</b>

The statement of accounting policies forms part of and is to be read in conjunction with the prospective statement of cash flows.

# Governance and management

## Board



**Murray Sherwin, CNZM**  
Chair



**Andrew Sweet**  
Commissioner



**Professor Gail Pacheco**  
Commissioner

## Leadership team



**Daiman Smith**  
General Manager



**Judy Kavanagh**  
Inquiry Director



**Doctor Patrick Nolan**  
Director, Economics  
& Research  
Acting Inquiry Director



