

Speaking notes: Improving the productivity of government services

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Introduction

It is my pleasure to be able to respond to Patrick's presentation today. He's talked about why the productivity of government services isn't measured – the misconceptions about what it's about, about how hard it is, and that it takes time. And he's talked about the factors needed for growing public service productivity – management quality and service re-visioning. And he's talked about the possibilities of digital in the delivery of services – such as artificial intelligence – all exciting stuff..... He's optimistic..... and I don't think I am. Perhaps after this you will understand why.

Structure of presentation

I'm going to be talking about **what the Productivity Commission has found** at this point midway into our inquiry into state sector productivity, why the bureaucracy doesn't focus on it and the barriers we've identified to both measuring and improving the productivity of public services... Along the way you'll see some **resonance with what Patrick has found and some differences too**.

My key message is this... if governments want higher public sector productivity, they need **public institutions that encourage and enable productivity measurement and improvement**.

But first, I'm going to back up a bit and talk about why we should care about this stuff and I'll finish with what we plan to do to get some focus on it within government.

Public services have grown in scale coverage and complexity

The state plays a big role in individual and collective wellbeing.... and governments today provide or subsidise services that are well beyond what previous generations received or expected. For example:

In 1944, 2300 children attended subsidised kindergartens in New Zealand. In 2015, there were nearly 200,000 children receiving subsidised early childhood education.

In 1996 the New Zealand police received a little over 5000 calls relating to mental health or threatened or attempted suicide. In 2017, this number had increased to a staggering 47 000 calls.

The growth in the provision of public services reflects a number of factors, including improvements in technology, increased life expectancy, growing personal incomes (and hence both government revenue and expectations of service) and wider social changes, such as the rise of female participation in paid work, and the increasing pressures on individuals and communities.

Public services have lifted wellbeing

There is no doubt that public services have made a considerable contribution to the wellbeing of New Zealanders. One example is the contribution that health services have made to life expectancy... which increased by 6 years between 1981 and 2004. The researchers found health services directly contributed to two of those years.

Yet rising costs raise concerns about effectiveness and efficiency

Yet increased life expectancy and improved health has been accompanied by steeply rising health care costs - both in absolute terms and as a proportion of GDP... and there are growing concerns in many OECD countries about the efficiency of health systems.

The authors recognised the need to raise productivity.

Government expenditure as a share of GDP is expected to keep on rising in NZ

This is Treasury's 2016 forecast – a rising profile of spending on social services as a proportion of expected GDP. Health is of course the “biggie”, but other services have a rising cost profile too. (Ignore NZ Super for the purposes of this presentation as it's not a social service.)

Delivering public services in the future

I want to stress that effectiveness and efficiency are both important.

We need to focus on making sure that public services are effective at delivering the outcomes we want... that is, there's a clear intervention logic between the activity undertaken and the outcome we are seeking.

... but it's also important that we deliver **effective services as efficiently as possible**... that is, the activities of government are undertaken with an efficient deployment of inputs.

In some cases we've made progress in figuring out what services are effective but it's still hard for government to **disinvest** in services which are ineffective or have very low effectiveness for the cost of provision. We've had less focus in recent years on how efficiently we provide public services... how much it costs to produce an output – whether that output is a course of treatment for a medical condition, or a year of schooling for a child, or a sentence delivered by a court.

We also need to think about the costs of the activities the state undertakes – how much it costs to collect a fine or process a benefit application. Of course a focus on efficiency is no use if we are doing ineffective things..... but equally, doing the most effective things shouldn't be done in a way that is inefficient.

What do we know about the productivity of public services?

What do we know about the productivity of public services? About the activities we undertake? or the outputs we produce? and how much they cost? Not a lot. Not enough.

Our knowledge is at best patchy, and at worst bordering on neglectful ignorance.

We do know there have been some productivity improvements in **some** areas.

Some of this improvement has come from what we call business re-engineering – what I think Patrick has described as service re-visioning. For example, the cost of processing an application for the Accommodation Supplement fell by around 45% between 2014 and 2017.

Other improvements have come from technological change or institutional arrangements (such as a pharmaceutical purchasing agency) which have allowed the Government to purchase more services with less money. Lipitor, for example, came off patent in 2012 and the costs of statin treatment plummeted – from nearly \$70m a year to less than \$10m – despite an increase in the number of patients taking the drugs.... around 450,000 New Zealanders.

The key here, I think, is that there are innovations and improvements out there and it's about how Government can harness these and use them to benefit New Zealanders... and that will become even more important given the possibilities Patrick has outlined in his presentation. Realising the possibilities may be matter of reengineering business processes but some of it might require quite different types of institutions.

In some cases there are indications state sector productivity is flat or declining. For example, between 2002 and 2015 the number of school students in New Zealand rose by an average of 0.3% per year while the funding from government and other sources grew by 4.4% per year.

It is important to understand the reasons for this. Why aren't we asking questions about productivity?

And increased expenditure appears not to have been effective in improving outcomes

And here's a graph that might cause us to ask questions about the effectiveness of our schooling system. This figure shows trends in average per-student school funding and New Zealand's average literacy, mathematics and science scores in the OECD's PISA studies. (The Programme for International Student Assessment)

The blue is the average PISA score in science

The orange is the average score in reading

The green is the average score maths

How can we make the effectiveness and productivity of public services more transparent? How can we get decision makers to pay more attention to it?

The Commission's current inquiry into *Measuring and improving state sector productivity* is a start.

An inquiry into state sector productivity

The last government asked the Productivity Commission to conduct an inquiry into state sector productivity. However, Grant Robertson reaffirmed his interest in the inquiry topic shortly after becoming Minister of Finance. We're midway through and here's what we've found so far.

What we found (1)

The productivity of government – measuring it or improving it – is not a priority. In fact the Commission found that productivity measures are conspicuously absent from the government's official performance indicators. Although we did find pockets of concern for efficient customer-focussed delivery.

We also found that productivity gets bad press. Notably in the justice sector, where Chief Justice, the Right Honourable Dame Sian Elias has written that efficiency, cost-effectiveness... and... a relentless attention to reducing cost... risks undermining the independence of the courts and fundamental values and principles such as the right to a fair trial. A paper commissioned for the inquiry concluded that "technical efficiency, least cost production and productivity is the language of economists and accountants...without a health outcome or health service quality anchor, health practitioners will fail to engage". We also found trust issues around the use of data prevalent in the health sector...and in the justice sector.

What we found (2)

We found funding and policy settings play a crucial role in determining the emphasis placed on efficiency and the extent to which innovation can organically emerge.

The Commission's inquiry into *New models of tertiary education* found that government limits both the flexibility and responsiveness of the tertiary sector through prescriptive rules that dictate the nature, volume and location of delivery. And in its *More effective social services* inquiry, the Commission found evidence of prescriptive government contracts that constrained the scope for innovation and service improvements among NGOs.

Within the core public service sectors that are the focus of our current inquiry, the Commission has heard of input controls which limit the ability of agencies to find lower-cost ways of delivering services. Many of these

policies stem from political commitments – such as for more police or nurses – and that can mean frontline staff end up undertaking administrative tasks that might be better delivered by having more back office staff.

In its *New models of tertiary education* inquiry, the Commission found scores of individual tertiary teachers integrating technology into their teaching but little institutional effort to scale innovation.

An Ian Axford fellow, Amy Downs, reported that innovative changes to primary care delivery appear not to be driven by government policies. Rather, most initiatives are driven by local leaders who are inspired to change the way care is delivered.

Former and current state sector leaders interviewed for the inquiry commented that the desire to attract more funding, and competition between agencies for more funding, is top of mind for many state sector leaders. This attitude is incentivised because budget and department size are viewed as de facto sources of state sector leaders' prestige.

The Budget process scrutinises new initiatives and programmes, but there is little re-examination of existing activity. Some senior public servants interviewed for the inquiry noted that similar incentives applied to ministers – the desire to “get more money to do more things”.

Formal reviews of baselines were introduced in the late 1990s in an effort to examine the efficiency of government services. However, these have fallen into abeyance, with the last “output price review” of a department held in 2004.

Risk aversion, particularly political risk, consistently emerges as a barrier to innovation. From the perspective of CEs and DCEs and politicians, the risk of an innovation failing can outweigh the prospects that innovation will increase the efficiency or effectiveness of public services.

What we found (3: public servants somewhat disagreed that...)

I've put this slide up because Patrick specifically mentioned employee resistance and managerial quality in his presentation. This is from the Public Service Association's survey of its members undertaken in 2016. We pulled out the results for selected questions for members working in the health, justice education and social services sectors.

The results suggest that public sector organisations aren't good at learning from their mistakes, and they don't handle change well. Moreover, public servants aren't being rewarded for exploring new ways of working. And, not surprisingly, innovation is perceived as low.

Of course, the survey sample is not representative but the results are the views of around 7,000 public servants. This looks to me like an institutional problem.

What we need to do

I think the task now is to understand more about how productivity happens in the public sector and what conditions would enable a greater focus on productivity measurement and on productivity improvement.

A guidance document for officials

To help officials measure, we've produced a number of illustrative case studies, based on Patrick's Productivity Path Analysis. We'll be refining our guidance and case studies and publishing these with our final report.

Advice for Ministers

And we'll be providing advice to Ministers in the final report due in August. What will it say? We'll be giving Ministers an important message - the Government has identified many pressing needs, and community expectations of service coverage and quality continue to rise. Providing government services sustainably into the future will require a focus on producing **effective** public services as **efficiently** as possible.

Ministers need to focus on and drive efficiency in service delivery and there need to be institutional systems and processes that make it easy for them to do so. Our final report will be about how they can do that.

Questions and comments

Thank you for your time

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