

11 December 2019
Hon Grant Robertson
Minister of Finance

Dear Minister,

Triannual Report – 1 July to 31 October 2019

I am pleased to submit the Commission's first triannual report for the 2019-20 year. While intended to cover the reporting period 1 July to 31 October 2019, this report also comments on matters outside of the reporting timeframe where relevant.

On 4 July, the Commission released its draft report on *Local government funding and financing*. The report presented 67 findings, 30 recommendations and asked eight questions. Public feedback was invited and 134 submissions were received. The final report was presented to referring Ministers on 26 November 2019.

The Commission has released two draft reports for the *Technological change and future of work* inquiry: *New Zealand, technology and productivity* and *Employment, labour markets and income*. Further analysis and advice will be provided in three subsequent draft reports: *Training New Zealand's workforce*, *Firms, innovation and labour markets* and *Educating New Zealanders for the future*. We are seeking public and stakeholder feedback until 17 February 2020.

In October 2019, the Commission released a research paper *New jobs, old jobs: the evolution of work in New Zealand's cities and towns* which contributed to the *Technological change and future of work* inquiry. It used Census data from 1976 to show how New Zealanders have experienced big changes in the jobs they do and the places they live and work in the last 40 years.

Given a constrained budget for our research activities generally, the Commission has continued to review and reprioritise our research efforts, ensuring that activities are sustainable and value for money. For example, we are coordinating less cross-agency work using the Longitudinal Business Database. The level of investment into this research across government remains a concern for us and we would welcome the opportunity to discuss this asset and our research function in more detail.

The Commission's expenditure tracked \$123k over budget for the reporting period. This result was driven by an overspend on flexi-resourcing of \$78k, due to the costs of specialist technical advice for the draft report stage of both our inquiries. The Commission is forecasting to be slightly over-spent at the end of the financial year.

We would be pleased to meet with you to discuss the Commission's activities and 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 July to 31 October 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	Green	<p>On 4 July, the Commission released its draft report for the <i>Local government funding and financing</i> inquiry. The report presented 67 findings, 30 recommendations and asked eight questions. 134 submissions were received. Further consultation and analysis informed the final report which was presented on 26 November 2019.</p> <p>The Commission released two draft reports for the <i>Technological change and future of work</i> inquiry: <i>New Zealand, technology and productivity</i> (12 September 2019) and <i>Employment, labour markets and income</i> (21 November 2019). Three further draft reports will be released: <i>Employment, labour markets and income, Training New Zealand's workforce, Firms, dynamism and labour markets</i> and <i>Educating New Zealanders for the future</i>. Public feedback is invited until 17 February 2020.</p>
Research	Green	<p>On 16 October 2019, the Commission published <i>New jobs, old jobs: the evolution of work in New Zealand's cities and towns</i>. This paper used Census data to show the big changes in employment for New Zealanders since 1976.</p> <p>The Commission continues to remain concerned with the level of investment into LBD research across government and sees a risk of this database becoming a stranded asset.</p>
Promoting understanding	Orange	<p>The Commission has scaled back its efforts to promote understanding of productivity related matters through convening events and public speaking. Nonetheless, recent presentations have covered our inquiry work as well as taxation, labour markets, competition and firm mark-ups, tradeable industry clusters, policy planning and climate change.</p>

Inquiry: Local government funding and financing

	Status	Comment
Right focus		The Commission held 75 face-to-face meetings with individuals, government and non-government organisations and firms throughout New Zealand, carried out five case studies, commissioned research and conducted in-depth analysis to produce a focused, evidence based final report.
Good process management		<p>The work programme was kept on track with the draft report published in July, allowing two months for submissions, further consultation, research and analysis, before the final report was presented on 26 November 2019.</p> <p>The team periodically met with a group of cross-government agencies convened by DIA. This provided visibility and progress of other work programmes that had a bearing on this inquiry.</p>
High-quality work		<p>The release of our draft report provided an important opportunity to test our ideas, findings and recommendations with the local government sector and wider stakeholder group. This helped lift the quality of our final report.</p> <p>During the course of this inquiry, the team gathered and examined evidence from multiple submissions, engagement meetings, conference events, research, and workshops. Five case studies were conducted to “get beyond the averages” and deep dive into some specific issues facing different councils. For example, we worked with three councils in Hawkes Bay on a climate change adaption pressures case study, examining the cross-council process used to develop the Clifton to Tangoio Coastal Hazard Management strategy.</p> <p>Specialist consultants were contracted to provide expert advice and quality assurance on specific issues: Dr Kenneth Palmer (University of Auckland); Professor Ian Ball (Public Sector Performance (NZ) Ltd); Robin Oliver and Mike Shaw (OliverShaw); Fraser Colegrave (Insight Economics); Sapere Research Group; Carl Hansen (Capital Strategic Advisors); Peter Winder (McGredy Winder & Co). Expert advice was also received from Professor Jonathan Boston and Dr Judy Lawrence (Victoria University of Wellington).</p>
Effective engagement		<p>An ambitious round of engagement was undertaken with the local government sector and wider stakeholder group. This included 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.</p> <p>A total of 271 submissions were received from a diverse range of sector participants (including from councils, business groups, property developers, infrastructure providers, academics and researchers, farming bodies, ratepayer groups, individual ratepayers and government agencies). These helped provide valuable insights for our inquiry.</p>
Clear delivery of message		<p>The final report was carefully written and formatted to ensure clear and accessible messages that acknowledged a wide range of viewpoints. Charts and diagrams were used to help convey complex information. All chapters were reviewed by an external editor, in addition to our internal quality assurance and editing processes to ensure clarity and accessibility.</p> <p>Summary documents have been developed and targeted communications are planned via post, email, web and social media to reach and engage a wide audience.</p>

Inquiry: Technological change and the future of work

	Status	Comment
Right focus		The Commission is publishing a series of shorter reports to maintain the right focus and enable greater alignment of our work with the policy process.
Good process management		Two draft reports have been published: New Zealand, technology and productivity and Employment, labour markets and income . Three further draft reports will be published: <i>Training New Zealand's workforce</i> , <i>Firms, dynamism and labour markets</i> and <i>Educating New Zealanders for the future</i> . Public and stakeholders have been given until 7 February 2020 to feed back. Our final report is on track for 30 March 2020.
High-quality work		<p>In August 2019, the Commission ran a digital divide workshop with the New Zealand Work Research Institute. Specialist experts came together to contribute their views. Read the workshop summary.</p> <p>In September 2019, the Commission hosted a roundtable on micro-credentials in New Zealand. This brought together a wide range of views from industry, the tertiary sector, training institutes and the public sector. The insights will form part of our upcoming draft report <i>Training New Zealand's workforce</i>. Read the roundtable summary.</p> <p>Consultancy projects have been contracted to provide expert advice on specific issues. These include: Measuring the gig economy, The impacts of job displacement on workers by education level and Occupational drift in New Zealand (Motu), Unemployment insurance what can it offer NZ? (Kathy Spencer) and two reports from NZCER on school students' <i>Subject choice for the future of work</i>. The Commission's Economics & Research team have also contributed papers on New jobs, old jobs and Job-to-job transitions and the regional job ladder.</p>
Effective engagement		<p>To aid engagement with the wider public, a FutureworkNZ blog was set up to share insights. Since May it has achieved 14 000 website views and some blog posts have been republished, for example in LSE Business Review, Management Magazine and NZ Herald's AgriBusiness report. Fortnightly blog updates are sent to 1 300 people and achieve a 40% open rate. Blog posts are posted on social media and provide the potential to reach and engage a wide and diverse audience. For example, posts about popular topics like AI have earned 53k impressions and 34 engagements. Positive feedback has been received, for example:</p> <p>"Thanks for another great crop of blog posts. I share these around my directorate at Tsy and often point others toward them too, as a great source of common-sense everyday explanations of complex concepts. It's very helpful that the material is (a) accessible and (b) frequently added to, so there's always something fresh to read. Thank you NZPC!"</p> <p>We have also consulted with a broad range of stakeholders face-to-face (44 engagement meetings and 13 conferences/seminars). The digital divide and micro-credential workshops involved a large number of external organisations. Public submissions are invited with 51 submissions received and considered.</p>
Clear delivery of message		We focus on conveying our evidence and messages in clear and accessible language. All communications are subject to our internal editing process to ensure clarity and accessibility.

Previous inquiries

In July 2019, Hon David Parker announced a "comprehensive overhaul of the RMA". The Resource Management Review Panel published its issues and options paper in November 2019: *Transforming the resource management system*. This paper contains multiple references to our 2017 *Better urban planning* report. Further, in October 2019 Kāinga Ora–Homes and Communities was established as a new Crown agency to transform housing and urban development throughout New Zealand. This was another recommendation from our *Better urban planning* report.

The Government announced a Climate Action Plan in August 2019 and released the government's response to our 2018 *Low-emissions economy* inquiry. The response notes that Cabinet agreed to 43 of the Commission's recommendations; agreed to investigate a further 33 recommendations; and, rejected one recommendation. In November 2019, the Government proposed to increase the landfill levy and apply it to more types of waste. The consultation document contains references to recommendations from our *Low-emissions economy* report.

In September 2019, Australian and New Zealand Ministers met to advance the Single Economic Market agenda. They noted progress on a number of the findings from our 2019 *Growing the digital economy* report.

In December 2019, the Government confirmed it will improve competitiveness and transparency in the retail fuel market in response to the findings of a market study by the Commerce Commission. This shows progress on a recommendation from our 2014 *Boosting services sector productivity report* where we recommended giving the Commerce Commission the power to do market studies.

The Commission notes that formal government responses are yet to be received for the following inquiries: *Better urban planning* and *Boosting services sector productivity*.

Research

In October 2019, we published *New jobs, old jobs: the evolution of work in New Zealand's cities and towns*. This research used Census data from 1976 to show the changing economic geography of New Zealand's cities and regions. It distinguishes the employment dynamics of New Zealand's large urban areas from those of smaller ones and shows how the transition paths out of manufacturing and into professional services sectors have varied among urban areas. This research also shows how the economies of most cities and towns in New Zealand have become less reliant on specialist industries and more like each other, which has implications for regional labour mobility and government policy. The Commission presented this research at the 11th Annual Conference of the Association of Academic Historians in Australian and New Zealand Business Schools at AUT and it contributed to our *Technological change and the future of work* inquiry.

The Commission will publish its work on *Job-to-job transitions and the regional job ladder* in January. This paper uses linked employee-employer data to examine the frequency with which workers change jobs in regional New Zealand and wage premiums associated with these job-to-job transitions. The Commission has presented this research at a seminar at AUT and it has contributed to our inquiry work.

We co-funded research by Motu into competition and productivity to better understand different aspects of competition within industries in New Zealand. This work drew on a redeveloped firm-level productivity dataset and formed the basis for a summary report and web-based data visualisation tool.

As noted in our last triannual report, the Commission has reduced its role in coordinating cross-agency work using the Longitudinal Business Database (LBD). The Commission continues to remain concerned with the level of investment into LBD research across government and sees a risk of this database becoming a stranded asset.

Promoting understanding

As also noted in our last triannual report, the Commission has reprioritised our research and outreach efforts to ensure that these are sustainable in the short-to-medium term. Over the period of this report we did not convene any public presentations on productivity-related research from academics and government

departments. We have, nonetheless, continued to present to a wide range of audiences across our inquiry and non-inquiry work, for example:

- At the New Zealand Association of Economists Conference, there were presentations from four of our staff on: competition and firm mark-ups; New Zealand labour market trends; New Zealand tradeable industry clusters and business dynamics; and labour productivity, the fiscal outlook, and living standards.
- Our Economics & Research Director, Dr Patrick Nolan, was the discussant at a Treasury guest lecture on wellbeing and knowledge given by Professor Paul Dalziel from Lincoln University. Patrick also taught the productivity section of a School of Government course (GOVT 521 PPMP) for MPs in November.
- Our Chair was a panellist on *Why competition matters?* at the Commerce Commission's Competition Matters conference in Auckland and guest speaker at the New Zealand Agricultural and Resource Economics Society Conference on *Policy and planning under uncertainty*.
- Our Chair presented on our *Local government funding and financing* inquiry at the Water New Zealand Conference and the Economic Development New Zealand Conference. For our other inquiry into *Technological change and the future of work*, staff presented to the MacDiarmid Institute Alumni, Ix Conference, University of Auckland and Commerce Commission.

Financial performance

Overall the Commission tracked \$123k over budget for the reporting period. Flexi-resourcing was over-spent by \$78k due to the costs of specialist technical advice for the draft report stage of both our inquiries. The Commission is forecasting to be slightly over-spent at the end of the financial year.

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

All financial activity

Financial performance (\$000's)	4 months to October 2019		2019-20 year forecast
	Actual	Variance to budget	
Income	1,725	3	5,132
Expenditure	1,809	(126)	5,132
Net surplus	(84)	(123)	-
Total equity			869

Output cost breakdown

Output performance (\$000's)	Actual (4 months to end- October 2019)	Variance to budget (4 months to end- October 2019)	Allocation remaining (full year)
Inquiries	1,570	(90)	2,929 (65%)
Research	239	(36)	404 (63%)

Capability

Principal Advisor John MacCormick joined our *Technological change and future of work* inquiry in May, on secondment from the Ministry of Education's tertiary and international education group.

Two new Commissioners were appointed to our Board: Andrew Sweet in June 2019 and Professor Gail Pacheco in July. Gail was awarded the 2019 AUT University Medal at the AUT Excellence Awards in October, recognising her sustained and exceptional academic achievement.

Principal Advisor Terry Genet went on secondment from July for nine months to the Ministry for Business, Innovation and Employment to work on climate change policy in their economic development and transitions branch.

In September, the Commission recruited Dr Penny Mok to start in November as a Principal/Senior Researcher in our Economics & Research team. She comes to us from MBIE and has extensive quantitative research experience.

Priorities and issues ahead

On the horizon for the next triannual period (November 2019 – February 2020) and beyond:

- Following a suggestion from the CE of Whangarei District Council, we are writing a synthesis report to bring together the findings from our local government-related inquiries. This insights report will be published in February 2020 and will highlight the key lessons for both local and central government.
- From November 2019 to January 2020, we will release a series of draft reports to aid public engagement in our inquiry into *Technological change, disruption and the future of work*. These reports will be titled: *Employment, labour markets and income*; *Training New Zealand's workforce*; *Firms, innovation and labour markets*; and *Educating New Zealand's future workforce*. Our final report will be presented by 31 March 2020.
- The Commission and the Treasury are working together on the selection of new inquiry topics. We look forward to receiving new inquiry terms of reference in due course.