

25 November 2020
Hon Grant Robertson
Minister of Finance

Dear Hon Grant Robertson,

Triannual Report – 1 July to 31 October 2020

I am pleased to submit the Commission's first triannual report for the 2020-21 year. While intended to cover the reporting period 1 July to 31 October 2020, this report also comments on matters outside of the reporting timeframe, where relevant.

The Commission had one active inquiry during this reporting period, *New Zealand firms: reaching for the frontier*, for which the draft report will be released on 4 December 2020. The draft report incorporates the feedback received from inquiry participants and submitters, as well as commissioned research and in-depth analysis, to inform draft findings and recommendations. The Commission welcomes the report's review and critique by stakeholders as this important work is finalised. A briefing note, A3 and a copy of the draft report will be delivered to your office next week.

During the reporting period, our Economics & Research team undertook research to add value to our *Frontier firms* inquiry. This included a collaboration with the National University of Singapore to benchmark New Zealand's productivity performance against selected small advanced economies, and a project with NZTE to investigate the challenges faced when firms export goods and services overseas.

As per your August 2019 *Letter of Expectations*, we have worked closely with The Treasury on a prioritised list of new inquiry topics on the theme of a productivity-fuelled COVID-19 recovery. We look forward to your decision on a new inquiry to start this year and another to start on the completion of the *Frontier firms* inquiry in April.

Overall, the Commission tracked \$341k under budget for the reporting period. The reason for the underspend was largely the result of lower than anticipated operating costs, due to a reduced work programme with only one inquiry running during the first half of the financial year. There has been a corresponding reduction in both staffing and consultancy costs. We expect costs to track upwards as the year progresses and new inquiries start.

We remain open to any feedback to assist us in improving the value of our reporting to you.

Yours sincerely,



Murray Sherwin
Chair

Triannual Report: 1 July to 31 October 2020

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>The draft <i>Frontier firms</i> inquiry report will be released on 4 December 2020, for stakeholder review and critique, and the final report is on schedule for 31 March 2021.</p> <p>The Government refrained from assigning a second inquiry as its attention was fully occupied with the COVID-19 crisis and the Election. Instead the Commission assisted The Treasury in providing advice to the Government.</p>
Research		<p>The Economics & Research team carried out:</p> <ul style="list-style-type: none">• A collaboration with the National University of Singapore to benchmark New Zealand's productivity performance against small advanced economies.• A collaboration with NZTE to investigate the challenges faced when firms export goods and services overseas.
Promoting understanding		<p>A <i>Pandemic-economics blog</i> was set up with 26 posts published over a 5-month period, generating 14 600 unique views.</p> <p>The Commission ran three webinars, two on the <i>Frontier firms</i> inquiry and another on the <i>Technological change and future of work</i> inquiry. Two presentations were also convened on productivity-related research for Longitudinal Business Database researchers.</p>

Inquiry: *Frontier firms*

	Status	Comment
Right focus		<p>A three-step approach ensured the right focus to the inquiry, we:</p> <ol style="list-style-type: none"> 1. Observed the current performance of NZ's frontier and non-frontier firms. 2. Conducted primary and secondary research into the performance of firms, including the reasons for them not keeping pace with global frontier firms and why non-frontier firms do not get closer to the domestic frontier. 3. Established the policy recommendations that are most likely to improve the performance of NZ's frontier firms and their impact on non-frontier firms.
Good process management		<p>The Commission received and considered 33 submissions and held more than 80 face-to-face meetings with individuals, government and non-government organisations and firms throughout New Zealand. All submissions are publicly available on our website and a summary of submissions will be published.</p> <p>Ethics approval was sought and granted by the New Zealand Ethics Committee for the Commission's governance study to ensure robust and safe research practices.</p> <p>Enough time was allowed for the draft report to go through the Commission's internal quality assurance process, with regular Commissioner review meetings.</p>
High-quality work		<p>Research was commissioned as follows to provide high-quality analysis:</p> <ul style="list-style-type: none"> • Research by Dr David Skilling into the role of exporting firms in 13 small advanced economies and policies to improve their performance: <i>Frontier firms: an international small advanced economy perspective</i>. • A study by David Teece and Kieran Brown (BRG Institute) into how boards with strong "dynamic capabilities" can help firms innovate and succeed: <i>New Zealand Frontier Firms: a capabilities-based perspective</i>. • A scoping project with Anaru Mill on the barriers facing Māori firms. • A study by Prof. Jarrod Haar (New Zealand Work Research Institute) into the performance of Māori firms, using a strategic management approach. • A study by Dr Richard Fabling (Motu) on the characteristics of the New Zealand productivity frontier, the attributes of firms at the frontier, and the relationship between productivity growth and those firm attributes. • A study by Julie Fry and Peter Wilson (NZIER) into how migration policy could influence NZ firms to make greater use of technology and innovation relative to imported labour. • A report by TDB Advisory into the dairy sector. • A study by John Stephenson (Sense Partners) into <i>Firm dynamics and productivity growth</i>. • A study by Richard Harris (Motu) into <i>The importance of frontier firms in total factor productivity in New Zealand, 2001–2016</i>. <p>The Commission's inquiry team completed:</p> <ul style="list-style-type: none"> • A research note on modern innovation policy, looking at key lessons from overseas approaches. • A study of the role of boards in firms' decisions to scale-up, innovate and expand overseas: <i>New Zealand boards and frontier firms</i>.

Effective engagement		<p>The Commission undertook an ambitious round of engagement, including:</p> <ul style="list-style-type: none"> • Four industry case studies to explore the key drivers and inhibitors of innovation and diffusion in: dairy, horticulture, medical technology, and computer systems and services. • A qualitative project on firm governance, in collaboration with the Institute of Directors, to investigate how high-performing firms are making decisions about growth, investment, and business models. • Engagement with Anaru Mill, who connected us with a range of Māori business collectives, firms and individuals. <p>Communications included:</p> <ul style="list-style-type: none"> • A series of opinion-editorials published on interest.co.nz and NZ Herald. These covered key topics and provided an opportunity to share insights and generate discussion with the wider public. • A press release and social media on New Zealand boards and frontier firms (covered by NBR and Business Desk). There was also wide coverage on David Skilling's report across the media (12 items) and social media. • A public webinar in July to share inquiry progress and research approach. (110 people registered, 62 attended, 103 views of the recording). • A webinar for MBIE staff in July (101 registered, 54 attended) and a presentation at their offices in October. • Stakeholder emails eg, newsletter (August, 1 204 opens), firm governance reports (September, 1 153 opens), and events (October, 1 112 opens). • We hosted webinars by David Skilling on <i>Lessons on frontier firms from small advanced economies</i>, the BRG Institute on <i>Dynamic capabilities</i> and Hal Varian, Chief Economist at Google on <i>The state and direction of the global economy</i>.
Clear delivery of message		<p>The draft report is being reviewed by an external editor, in addition to our internal quality assurance processes to ensure clarity and accessibility.</p> <p>All commissioned research reports will be made available when our draft report is released.</p>

Previous inquiries

The Commission notes that formal government responses are yet to be received for the following inquiries:

- Technological change and the future of work; and
- Local government funding and financing.

During the reporting period, there were 185 mentions of the Productivity Commission in media articles and we noted the following examples of our work being explored and used:

Topic	Examples of our work being explored/used
Technological change and the future of work	In August the Ministry of Education progressed recommendations from our inquiry for more flexible and responsive education and training options: <ul style="list-style-type: none"> • NZQA now recognises micro-credentials in its national qualification’s framework. • Work has been signed off by the Minister of Education to remove the minimum 0.25 EFTS course load for part-time students to get student loans. • TEC is considering dropping the 5% funding limits for micro-credentials. • NZQA is considering dropping its “no stacking” rule for micro-credentials. • MoE, TEC and NZQA are working together to help facilitate more micro-credentials for workforce retraining.
	IBM’s discussion paper: <i>Let’s rethink how the world works</i> referenced our inquiry work and recommendations on making training more flexible and accessible.
Climate change	Recommendations from our 2018 <i>Low-emissions economy</i> report were influential in Stats NZ publication which estimated New Zealand greenhouse gas emissions on a consumption basis rather than on the standard production basis. <p><i>“Without the Prod Com’s recommendations this wouldn’t have happened! As alluded to in the low emissions economy report, the trade impacts are incredibly significant for understanding NZ’s emissions. Really good to see that in the data now.” Adam Tipper, Senior design analyst, Stats NZ</i></p>
	The Government plans to make climate-related financial disclosures mandatory for some organisations as per recommendations from our 2018 <i>Low-emissions economy</i> report.
	The British High Commission met with us to discuss our inquiry recommendations around subsidies for fossil fuels. They were interested in domestic fossil fuels and the role of the NZ Government in their international phase out.
Policy	David Schauer’s book <i>Covid - catalyst for change</i> was released. It outlined the many changes needed to improve New Zealand’s lacklustre economic performance – with references to the Productivity Commission, Chapters 2 and 15.
Frontier firms	IBM’s discussion paper: <i>Let’s rethink how the world works</i> cites <i>David Skilling’s report</i> which was prepared for the Productivity Commission.
Urban planning	A <i>MinterEllisonRuddWatts article</i> discussing the resource management reform referenced targeted rates that were recommended by the Productivity Commission.

Economics & Research

The Economics & Research team used Stats NZ's Longitudinal Business Database (LBD) to benchmark New Zealand's productivity performance against selected small advanced economies: Denmark, Sweden and Finland. This research was undertaken in collaboration with the Productivity Research Network at the National University of Singapore and the paper *Benchmarking New Zealand's frontier firms* will be released in early 2021.

A collaboration between the Commission and NZTE used NZTE's F700 firm's data and Stats NZ's LBD to investigate the challenges faced when firms export goods and services overseas. MBIE and MFAT have both expressed an interest in this research.

MFAT and MoW were actively engaged by the Commission to build research capabilities using the firm microdata and to establish opportunities for research collaborations.

Promoting understanding

The Commission had an active events programme during this reporting period. Events included:

Topic	Event/presentation
Frontier firms	<ul style="list-style-type: none"> • MBIE webinar: How can we help NZ firms reach the productivity frontier? (101 registered, 54 attended) • Public webinar: How can we help NZ firms reach the productivity frontier? (110 registered, 62 attended) • Massey University Executive MBA class presentation: How can we help Kiwi firms reach the productivity frontier?
Technological change and the future of work	<ul style="list-style-type: none"> • Techweek2020 webinar: Will machines replace humans in the future of work? (154 registered, 60 attended) • Property Council: The future workforce - the current and likely future impacts of technological change on the future of work, the workforce and productivity (70 attended)
Productivity and policy	<ul style="list-style-type: none"> • Motu webinar: Global productivity: trends, drivers and policies (163 people registered, 85 attended) • BDO leadership group series: Redefining productivity as a catalyst for change (140 attended) • Economic Chief Executive group meeting (incl Treasury Secretary, CE's of MBIE and DPMC & Governor of Reserve Bank). • Income protection gap presentation at Inland Revenue, attended by officials from Treasury and MSD <p>For LBD researchers:</p> <ul style="list-style-type: none"> • Measuring commute patterns over time: using administrative data to identify where employees live and work by Richard Fabling and David Maré from Motu • Do workers share in firm success? Pass-through estimates for New Zealand by Corey Allan and David Maré from MBIE and Motu, respectively.

A *[Pandemic-economics blog](#)* was set up to share perspectives and generate discussion on policy responses. Over a 5-month period, 26 posts were published generating 14 600 unique views. One post gained significant traction with 5 900 unique views: *[Lockdown: the effect on children's learning and wellbeing](#)*.

Financial performance

Overall, the Commission tracked \$341k under budget for the reporting period. There was underspend largely as a result of carrying vacancies in senior positions and lower than anticipated operating costs, with only one inquiry running during the first half of the financial year. Costs are expected to track upwards as the year progresses and new inquiries start.

All financial activity

Financial Performance (\$000's)	4 months to October 2020		2020-21 year
	Actual	Variance to budget	Forecast
Income	1 721	44	5 120
Expenditure	1 380	225	4 820
Net surplus/ (deficit)	341	269	300
Total equity			1 088

Output cost breakdown

Output performance (000's)	Actual (4 months to end- October 20)	Variance to budget (4 months to end- October 20)	Allocation remaining (full year)
Inquiries	1 161	(231)	3 242 (74%)
Research	219	6	410 (65%)

Capability

Dr Patrick Nolan, Director of Economics & Research and Acting Inquiry Director, left the Commission on 20 November 2020. Recruitment is currently underway for his replacement.

There have been several changes to Policy Advisors, with one leaving to take up a position at The New Zealand Climate Change Commission and another on a 6-month secondment to NZTA. Three new Policy Advisors were recruited: one started in August, another in November (on a 5-month fixed term) and a third in January.

Priorities and issues ahead

On the horizon for the next triannual period (November 2020 – February 2021) and beyond:

- Recruitment of an Economics & Research Director.
- New inquiry topics: one in the near term and another to follow from the *Frontier firms* inquiry.
- A strategy meeting (tbc) with MoF and Commissioners to discuss the Productivity Commission, its focus, relevance and impact.
- The release of the *Frontier firms* draft report on 4 December 2020 and final report by 31 March 2020.
- The release of *Productivity by the numbers*, benchmarking New Zealand's productivity performance over time compared to other OECD countries.
- The end of the Murray Sherwin's term as Chair on 30 January 2021 and new Chair appointment.