

Government response to the New Zealand Productivity Commission's Reports on Measuring and Improving State Sector Productivity

The Government has a vision for a coordinated and productive State sector. To achieve this vision we need to recognise and retain the strengths of our current public management and public finance systems while making the organisational and behavioural shifts needed for resolving the issues this Government is seeking to address. These changes reflect the themes in the Productivity Commission report findings and recommendations.

The core settings of the public management and public finance systems have served New Zealand well in the areas for which they were designed, including fiscal responsibility, and accountability and transparency to Parliament. However, the Public Service is not working well for everyone and struggles in responding to complex needs and issues, and the longer-term opportunities and risks facing New Zealand. It has created incentives for risk aversion, inhibited innovation, reduced the ability to respond rapidly, fostered silos through vertical accountability and created a focus on the short-term.

To address these issues and deliver on the Government's vision of a coordinated and productive State sector we are reforming the public management system and public finance system, which includes changes to the State Sector Act 1988 (SSA) and the Public Finance Act 1989. These reforms are working towards the common objective of a modern, agile, flexible, innovative and joined-up Public Service to improve intergenerational wellbeing.

For the public finance system, we are moving to a stewardship approach based around the following four system shifts:

- considering the creation and safeguarding of value while maintaining a focus and commitment to fiscal responsibility;
- supporting better collaboration, where required;
- emphasising support for a more agile system that can respond rapidly to new issues and the longer-term; and
- fit-for-purpose system settings and reporting that improve strategic focus, accountability, and transparency and performance improvement.

The SSA reform proposals are intended to support a unified, trusted Public Service by:

- providing better ways of joining up services around citizen's needs and ensuring agencies work together to achieve results for citizens;
- formally committing to principles and values which will underpin a professional career in the Public Service as well as codifying the purpose of the Public Service;
- putting in place the means to address key workforce issues;
- formally committing the Public Service to work to improve the Crown/Māori relationship;
- providing stronger leadership across the system to tackle key issues; and
- increasing the stewardship focus of the Public Service, building the capability to serve future governments.

Response to individual recommendations

No.	Recommendation	Government response	Government response text
R3.1	The State Services Commission should redesign the annual processes for setting and expressing ministerial expectations and standards to prompt the identification of opportunities for productivity gains in public services.	Partly agreed	The State Sector Act reform initiative currently in progress is taking these issues into account. The need for effective and efficient public services, which deliver, in a connected way, what customers need is intrinsic to the State Sector Act reform work.
R3.2	The Treasury and State Services Commission should establish and support a community of practice to share knowledge, expertise and experience in state sector productivity measurement.	Partly agreed	There are already established networks to facilitate sharing knowledge, expertise and experience in State sector productivity measurement so establishing one is not necessary. These networks include the Chief Financial Officer network, the Planning and Performance Network and the Government Productivity Network. The Treasury and the State Services Commission will continue to support discussion of productivity measurement through these established networks.
R3.3	The State Services Commissioner should convey his expectations to departmental chief executives that they build and sustain the capability to measure the productivity of public services.	Agreed	Performance expectations of departmental chief executives include the effective and efficient delivery of public services.
R3.4	The Treasury should collect and regularly publish information on expenditure on core public services, including (but not limited to) annual per-client or unit costs for schooling, court trials and imprisonment.	Not agreed	Agencies are already required to publish information on their expenditure and they are better placed than the Treasury to choose, calculate, publish and explain details of their expenditure, including per-unit or per-client cost. There are also issues that limit the value of raw ratio per-unit or per-client costs when they do not recognise the quality of the service being provided or the outcomes achieved.

R3.5	<p>Agency leaders should introduce productivity measures into public sector performance management systems with care. Before making such indicators formal accountability measures, agency leaders should ensure that:</p> <ul style="list-style-type: none"> • there has been appropriate consultation and input from stakeholders, especially those involved in service delivery; • the indicators align well with desired outcomes; • sufficiently robust data sources and collection processes are in place; • leaders and middle managers support the indicators' use and application; and • there are processes in place to regularly review the indicators, and test the continue to suit the operating environment. 	Agreed	<p>These considerations are important in the use of performance measures and indicators.</p>
R3.6	<p>The Treasury should continue to raise expectations on agencies seeking new funding in annual budget rounds to:</p> <ul style="list-style-type: none"> • use data, analytics and other investment models to design new initiatives and demonstrate their benefits; and • provide robust evaluation plans for new initiatives. 	Agreed	<p>The Treasury expects that all initiatives seeking new funding can demonstrate a strong intervention logic underpinned by evidence, including:</p> <ul style="list-style-type: none"> • understanding of the current state and counterfactual (including a clear description of evidence of the problem, taking a wellbeing approach) • different options proposed to address the problem • the assumed outcomes behind the proposed initiative, and • how the initiative will be implemented and evaluated.

R3.7	As part of future budgets, the Minister of Finance should set aside a distinct portion of the operating allowance dedicated to “high impact initiative” proposals that have a high probability of making a significant impact on social wellbeing (e.g., as evidenced through robust business cases and returns on investment), and then progressively increase the share of the budget allowance devoted to that portion.	Not agreed	<p>Combined response to both R3.7 and R3.8</p> <p>This Government is committed to putting people’s wellbeing and the environment at the heart of its policies, and to be more transparent about the wider impacts of its fiscal choices. Delivering a Wellbeing Budget in 2019 is an important first step towards showing how a wellbeing approach can be used to measure New Zealand’s success more broadly, and inform the Government’s investment priorities and funding decisions.</p> <p>Setting a distinct percentage of Budget allowances towards social wellbeing priorities creates a strong signal of intent. However, pre-determining a proportion of Budget allowances towards social wellbeing could limit Cabinet’s flexibility to adequately fund high value initiatives as circumstances and priorities change.</p>
R3.8	The Minister of Finance should restrict access to the “high-impact initiative” portion of future budget operating allowances to those departments that can credibly demonstrate productivity gains from existing baselines.	Not agreed	Combined response to both R3.7 and R3.8
R3.9	The Minister of Finance should allow non-government organisations to make budget bids directly to the Treasury for the “high-impact initiative” portion of the operating allowance in specified priority areas or outcomes, without having to go through the relevant Vote department.	Partly agreed	There have been attempts in the past to allow non-government organisations (NGOs) direct access to the Budget process. Lessons were learnt from this experience including that more than a simple opening up of the process is required such as working with NGOs to ensure that they have the capability to engage with the process, the evidence of what works and what doesn’t work, and knowledge of what has been tried before and what is currently underway. Like any innovation system, more is required than simply providing access to funding. The Treasury will consider how to support and enable innovation as part of the it’s wider work programme on the public finance system.

R3.10	Agencies responsible for the purchase or delivery of core public services should review their funding models, with a view to moving as many models as possible towards results- and outcome-based systems, or otherwise improving incentives for productivity improvements.	Agreed	<p>The public finance system supports the use of results or outcome based funding models where these are appropriate. One such model is Results Based Accountability, which is a simple framework that communities and organisations can use to focus on results/outcomes to make a positive change for their communities, whānau and clients. The Results Based Accountability model is already used across the social service, health and disability, local government, community development, environmental development, recreation and commercial sectors.</p> <p>Agencies decide if such approaches, are appropriate based on a variety of factors, such as the nature of the services provided, the relationship between the contractor and the agency, and the length of the contract period.</p>
R3.11	The State Services Commission should adapt the Performance Improvement Framework's lead questions and elements to provide clearer signals about – and test the extent of – cultures, values and staff engagement processes that support innovation and productivity in service delivery.	Partly agreed	The State Services Commission is currently evaluating the methods and practice of the Performance Improvement Framework for the future. The Productivity Commission's suggestions of signals and support for innovation and productivity will be taken account of in that work.