

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage



15 AUG 2019

Murray Sherwin
Chair
NZ Productivity Commission
PO Box 8036
WELLINGTON 6043

Dear Murray

It is encouraging to see the Productivity Commission's progress on the inquiries into Technological Change and the Future of Work and Local Government Funding and Financing. I also welcome the recent publication of *Productivity by the Numbers - 2019*.

As you will be aware, over the last 18 months the Treasury has been undertaking a review of the arrangements relating to the Productivity Commission, with the intention to ensure that we maximise the Productivity Commission's impact. This review was supported by an independent report by David Skilling. In his report David Skilling noted that the Commission is well-placed, however a series of changes could be made within existing institutional arrangements, and within the Commission's basic work model, in order to strengthen the Commission's contribution to productivity outcomes.

I have considered the findings of this report and the Treasury's review and consequently have comments to make in two main areas. First, I intend to make some changes to how I exercise my responsibilities regarding commissioning inquiries from the Productivity Commission. Second, this letter sets out my expectations as to changes in relation to how the Productivity Commission conducts inquiries and monitors productivity performance. I provide these expectations to inform the Board strategy setting process for the next Statement of Intent and Statement of Performance Expectation, due next year.

Commissioning and format of inquiries

As you are aware, under the legislative framework inquiry topics and the terms of reference for the Commission's inquiries are set by myself and responsible portfolio Ministers.

I consider that a number of improvements could be made in the process and approach to commissioning inquiries. Accordingly, I have directed the Treasury to make a number of changes as to how it co-ordinates the inquiry process. In particular, I expect that future inquiry topics will be more directly focussed on the causes of New Zealand's low productivity, vis-à-vis other advanced countries. I also expect that over time there will be an appropriate balance between topics related to the tradeable and non-tradeable sectors of the economy.

In order to implement this approach I expect the Treasury to provide me with robust advice during the inquiry selection process and to work closely with Commission staff to produce a prioritised shortlist of potential topics. The Treasury will assess and rank inquiry proposals based on the following criteria:

- a. The proposal uses the Commission's unique position as an independent agency with high quality analytical ability and a focus on public engagement;
- b. The proposal has the potential to deliver practical policy recommendations to improve the overall well-being of New Zealanders;
- c. The proposal is related to the sources of New Zealand's relatively low productivity vis-à-vis advanced countries;
- d. The proposal requires a substantial degree of analysis to resolve a complex set of issues; and
- e. Over time, inquiry topics should have an appropriate balance between tradeable and non-tradeable sectors.

In order to ensure that the work of the Commission continues to have impact, I have also given consideration to the format of inquiries. I continue to value the strong analytical foundation that the Commission brings and robust testing of analysis. Further, public engagement remains a crucial part of the inquiry process. However, I expect the Treasury to consider, in developing future terms of reference, whether more flexible formats may also increase the impact of the Commission's work. More flexibility could involve a variety of formats and will depend on the inquiry topic but may, for example, involve providing a number of shorter papers or producing defined pieces of evidence or research on the inquiry topic. I am pleased to see that the Commission has already been trailing different formats for its inquiries.

In developing your Board strategy over the coming year my expectation is that you explicitly consider how you could continue to alter the inquiry format to ensure maximum impact from the Commission's work. I also expect you to continue to consider how you assess the success of the Commission. In my view two key metrics are the extent to which the Commission's work is used by Departments and agencies in policy analysis and the extent to which the Commission's recommendation are implemented.

Outputs of the research function

The Commission's ongoing productivity work programme and engagement with the research community remains important to build our understanding of the different aspects of New Zealand's productivity challenges. The review recommended that, in addition to this research work, the Commission undertake and publish a regular benchmarking exercise to track New Zealand's productivity performance over time. Coming into developing your Statement of Performance Expectations next year, I encourage the Commission to prioritise producing *Productivity by the Numbers* on a regular basis to help measure our progress towards building a more productive, sustainable and inclusive economy.

I have asked my Office to arrange a time to meet with you and the Board to discuss your approach to next year's Board strategy setting process, including the approach to future inquiries, the Commission's research agenda and the adequacy of the Commission's resourcing to deliver on these expectations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'GRANT ROBERTSON', written in a cursive style.

Hon Grant Robertson
Minister of Finance