



30 Poutū-te-rangi 2021
Hon Grant Robertson
Minister of Finance

Tēnā koe Minister,

Triannual report – 1 November 2020 to 28 February 2021

I am pleased to submit the Commission's second triannual report for the 2020-21 year. While intended to cover the reporting period 1 November 2020 to 28 February 2021, this report also comments on matters outside of this timeframe, where relevant.

During this reporting period, we have seen a change in leadership with the Commission's 10-year establishment Chair, Murray Sherwin, completing his term and handing over the baton to myself on 31 January 2021 for a 5-year term. As the new Chair, I feel a deep sense of responsibility and strong desire to foster, encourage and reinforce the Commission's efforts to embrace broader wellbeing perspectives and improved productivity.

The Commission had a reduced work programme during the reporting period with one inquiry, *New Zealand firms: reaching for the frontier*. The [draft report](#) was released on 4 December 2020 for public and stakeholder review and 48 submissions received. The Commission has conducted further research, analysis and engagement to finalise this work. An embargoed PDF of the final report will be delivered to Ministers on 31 March 2021 and we look forward to providing Ministers with an oral briefing on Wednesday 14 April.

During the reporting period, our Economics & Research team supported the frontier firms inquiry with data and analysis. They used Stats NZ's Longitudinal Business Database (LBD) to benchmark New Zealand's productivity performance against other small advanced economies. 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](#) was released in February 2021.

Overall, the Commission tracked \$796k under budget for the reporting period. The underspend was due to our reduced work programme and from carrying several vacancies in senior positions (eg, Inquiry Director and Principal Advisors). Costs are expected to track upwards for the remainder of the year as new inquiries and new staff start.

I look forward to shortly receiving new inquiry terms of reference from you and I remain available to progress a kōrero on productivity with you that is relevant to the many wero facing 21st century Aotearoa.

Nāku iti noa, nā

A handwritten signature in blue ink, appearing to read 'Ganesh Nana'.

Ganesh Nana
Chair

Triannual report: 1 November 2020 to 28 February 2021

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	Orange	<p>No new inquiries were assigned, so the Commission had one active inquiry.</p> <p>We worked on the terms of reference for a new inquiry into <i>Working-age immigration policies for a post-COVID recovery</i>.</p> <p>The draft <i>Frontier firms</i> inquiry report was released on 4 December 2020 for stakeholder review and critique. 48 submissions were received. An embargoed PDF of the final report will be presented to referring Ministers on 31 March 2021.</p>
Research	Green	<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. The paper was published in February 2021: Benchmarking New Zealand’s frontier firms. • A collaboration with NZTE to investigate the challenges faced when firms export goods and services overseas.
Promoting understanding	Green	<p>The Commission presented the draft findings and recommendations of the frontier firms inquiry to a wide range of audiences, including to government officials, exporters, manufacturers, researchers and a network of Australian women directors. We were interviewed on Māori TV in December about insights from Māori firms and the draft frontier firms report.</p> <p>We also presented on a range of other topics during the reporting period, including on climate change, modern industrial policy, covid-policy, New Zealand’s economic outlook and women in leadership.</p>

Inquiry: Frontier firms

	Status	Comment
Right focus		After the release of the draft report , the Commission undertook a thorough work schedule of engagement meetings, further research and in-depth analysis to produce an improved final report.
Good process management		The draft report was published on 4 December 2020, together with a summary of submissions and seven research reports. Nine weeks was allowed for submissions by 5 February 2021 to enable time for feedback to be considered and incorporated into the final report. Review meetings with Commissioners were scheduled every 2 weeks to discuss issues and agree improvements.
High-quality work		<p>The release of the draft report was an important opportunity to test the Commission's ideas, findings and recommendations with stakeholders. This was an essential step in lifting the quality of the final report.</p> <p>Specialist consultants were contracted to provide expert advice and quality assurance on specific issues: David Teece and Kieran Brown (BRG Institute), Richard Fabling (Motu) Julie Fry and Peter Wilson (NZIER), David Skilling (Landfall Strategy Group), Philip Barry (TDB Advisory), Jarrod Harr (New Zealand Work Research Institute), Keith Woodford (Lincoln University), Tom Love (Sapere), Stephen MacDonell (University of Otago) and Deloitte Access Economics.</p> <p>During the course of this inquiry, the team has gathered and examined evidence from 81 submissions, engagement meetings, research and events. Case studies have also been conducted to dive deep into specific issues facing four different sectors: horticulture, dairy, software, medical technology, and software products and services. These will be published with the final report.</p>
Effective engagement		<p>A multi-agency workshop was held in February to discuss how best to operate focused innovation policy. Staff attended from MBIE, Callaghan Innovation, NZTE, TPK and Treasury.</p> <p>Briefings on the draft report were offered to opposition parties and arranged with National MPs, Damien Smith from ACT and Minister Woods.</p> <p>Online and in person events were held to share inquiry progress and gain feedback on the draft report, including:</p> <ul style="list-style-type: none"> • Treasury Guest Lecture with a panel discussion between Bettina Schaer (Treasury), Dean Ford (MBIE) and Kieran Brown (BRG Institute). This was well attended with 100 people in person and 75 online. • A webinar for ExportNZ with 10 exporters on <i>How can New Zealand build more world class exporting firms?</i> • Briefing to VUW Institute for Governance and Policy Studies macroeconomics discussion group, senior associates and VUW staff. • Presentation to MaDE 2020 Conference • Presentation to Auckland Unlimited.
Clear delivery of message		<p>The final report is being carefully written and formatted to ensure clear and accessible messages that acknowledge a wide range of viewpoints.</p> <p>Charts and diagrams are being used to help convey complex information.</p> <p>The report is reviewed by an external editor, in addition to our internal quality assurance and editing processes, to ensure clarity and accessibility.</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 149 mentions of the Productivity Commission in media articles and we noted the following examples of our work being explored and used:

Topic	Examples of work being explored/used
Technological change and the future of work	NZQA advised that micro-credentials will now be 'stacked' towards qualifications as per a recommendation from our Training New Zealand's workforce report.
	Our inquiry report was quoted in the Royal Society of New Zealand's report on <i>The Research Workforce Of Aotearoa New Zealand</i> .
Climate change	Our 2018 <i>Low-emissions economy</i> report and three other ProdCom reports informed where Government policy should be targeted to address climate change. The evidence reports for the Climate Change Commission's 2021 Draft Advice for Consultation had multiple references to our reports in Ch16 and Ch17 .
RMA reform	The Commission's <i>Better Urban Planning</i> report provided many of the ideas for the Randerson report on the RMA which the Government is now using as its blueprint for a major reform of the RMA.

Economics & Research

The Economics & Research team used Stats NZ's Integrated Data Infrastructure (IDI) and Longitudinal Business Database (LBD) to benchmark New Zealand's productivity performance against selected small advanced economies: Belgium, Denmark, Finland, Netherlands and Sweden. This research was undertaken in collaboration with the Productivity Research Network at the National University of Singapore and the paper was released in February 2021: [Benchmarking New Zealand's frontier firms](#).

This report finds that whilst New Zealand firms experience similar speeds of within-country technology diffusion, they are not benefiting from the diffusion of best technologies from outside the country which could help lift productivity. There is also evidence of labour misallocation in New Zealand, based on less labour-productive firms having disproportionately larger employment shares than their more productive counterparts.

The study also simulated the potential productivity gain if cross-country technology diffusion and/or labour allocation improved. It found that when both scenarios were imposed on the data, New Zealand's relative labour productivity could improve significantly from 53% to 71% of the SAE average.

The team also used the LBD to investigate the productivity and characteristics of firms in the four industries selected for case studies: dairy, health technology, horticulture and software. These industry case studies are an important part of the evidence base for the frontier firms inquiry.

The team collaborated with NZTE using NZTE's F700 firm's data to investigate the challenges faced when firms export goods and services overseas. MBIE and MFAT have both expressed an interest in this research which will be released in April 2021.

The Commission provided partner support for a UKRI Future Leaders Fellowship for Dr Jen Nelles on "A complexity approach to urban and regional innovation systems". This research explores dimensions of productivity that are likely to feed into current and future inquiries. Engaging with this project is also consistent with our mandate to incorporate lessons from elsewhere to add value and perspective to our research and recommendations.

Promoting understanding

The Commission had an active events programme during this reporting period, presenting at the following:

Topic	Event/presentation
Frontier firms	<ul style="list-style-type: none"> • <i>Take on board</i> breakfast for female Australasian Directors on how boards with the right mix of skills and experience can help build high-performing firms. • Institute of Directors webcast: <i>How can we lift the performance of boards?</i> Panellists included Bridget Coates, Mark Cross and Whaimutu Dewes (124 attended) • MaDE2020 Conference: Synergies in New Zealand Manufacturing, Design and Entrepreneurship • Export NZ webinar with 10 of New Zealand's leading exporters: <i>How can New Zealand build more world class exporting firms?</i> • Treasury Guest Lecture, <i>Unlocking New Zealand's productivity potential: the key role of frontier firms.</i> Included a panel discussion between Treasury, MBIE and BRG Institute (100 attended in person, 75 online) • Briefing and feedback with VUW Institute for Governance and Policy Studies macroeconomics discussion group, senior associates and VUW staff.
Future of work	<ul style="list-style-type: none"> • Primary Industry Capability Alliance, Research & Insights Forum 2021, <i>Workplace safety and the future of work in New Zealand</i>
Climate change, industrial policy, productivity and leadership	<ul style="list-style-type: none"> • KangaNews-Westpac New Zealand Sustainable Finance Summit, panel session on <i>Building New Zealand's future economy – what will it look like?</i> • ReBuilding Nations Symposium, panel session on <i>How to improve productivity and reduce transport emissions.</i> • Women in Leadership Summit, panel session on <i>Advancing leadership opportunities for women from minority backgrounds.</i> • Global Forum on Productivity, panel session on <i>Modern industrial policy – Time for a new paradigm?</i> • Russell McVeagh and LEANZ: <i>Covid policy trade-offs: what have we learned?</i> (40 people attended) • University of Otago Summer School, presentation on <i>Post COVID-19 reset: Transformational opportunities for a healthier, fairer, more sustainable Aotearoa</i>

Financial performance

The Commission tracked \$796k under budget for the eight-month reporting period due to significant underspends in the Personnel and Flexi-Resources budget lines (ie, consultancy spend). Both under-spends are directly related to a reduced work programme during the year-to-date with our operations reduced to one ongoing inquiry and limited research output given capacity constraints. Costs are expected to track upwards for the remainder of the financial year as new inquiries are assigned and as newly appointed staff commence in the research team. The following tables provide a summary of financial performance across the Commission, and in output areas, for the eight-month reporting period.

All financial activity

Financial Performance (\$000's)	8 months to October 2020		2020-21 year
	Actual	Variance to budget	Forecast
Income	3 455	100	5 132
Expenditure	2 659	590	4 382
Net surplus/ (deficit)	796	690	750
Total equity			1 088

Output cost breakdown

Output performance (000's)	Actual (8 months to end- February 21)	Variance to budget (8 months to end- February 21)	Allocation remaining (full year)
Inquiries	2 314	508	2 089 (47%)
Research	345	82	284 (45%)

Capability

The Commission's Chair of 10 years, Murray Sherwin, completed his term at the end of January 2021. The Commission welcomed Dr Ganesh Nana as Chair on 31 January 2021 for his first 5-year term.

There have been several changes to staffing with appointments of a Director of Economics & Research (starting in March), new Research Advisor (starting in April) and new Principal Advisor (January). Another Principal Advisor returned from a 9-month secondment to NZTA in February. Three members of staff have left the Commission and another is due to leave in April.

Priorities and issues ahead

On the horizon for the next triannual period (March – June 2021) and beyond:

- The delivery of the *Frontier firms* final report to Ministers on 31 March 2021 and public release in April 2021, together with the following associated research reports:
 - *Focused innovation policy: lessons from international experience*
 - *Frontier firms: Four industry case studies* - dairy, horticulture, software and healthtech
 - *Exporting challenges for firms* - a joint paper between the Commission and NZTE.
 - *Picking cherries: Evidence on the effects of temporary and seasonal migrants on the New Zealand economy* - a commissioned paper by NZIER.
 - *Insights from Māori frontier firms* by Mill & Millin.
- The release of *Productivity by the numbers* in May 2021. This will include a productivity primer and the latest figures and trends in New Zealand's productivity performance over time.
- Receiving new inquiry terms of reference and starting new inquiries.
- An Economics & Research Director and Research Advisor joining our Economics & Research team. A research agenda is being set and will be led by our new Director.