

30 March 2020
Hon Grant Robertson
Minister of Finance



Dear Hon Grant Robertson,

Triannual Report – 1 November 2019 to 29 February 2020

I am pleased to submit the Commission's second triannual report for the 2019-20 year. While intended to cover the reporting period 1 November 2019 to 29 February 2020, this report also comments on matters outside of the reporting timeframe where relevant.

On 26 November 2019, the Commission presented its final report on *Local government funding and financing*. It makes 78 findings and 44 recommendations. An independent evaluation of this inquiry is now underway. This is our fifth local government-related inquiry, so in February 2020 we published a *Local government insights* report to summarise our findings. This synthesis report highlights the key lessons for both local and central government and lays down a challenge to both sectors about how to do things differently and the benefits of making these changes.

The Commission released five draft reports for the *Technological change and future of work* inquiry and briefed Ministers on 18 February 2020. We sought public feedback over a 5-month period and 38 submissions were received. Our final report will be presented on 31 March 2020.

Dr Patrick Nolan is leading our new inquiry into *Frontier firms*. Planning and consultation has started and we will be releasing an issues paper in April to gather public opinions, evidence and ideas.

Given a constrained budget for research activities, the Commission has continued to reduce its research efforts to ensure that activities are sustainable. In November 2019, we published an international comparison into the *Scope and funding of local government* to contribute to our local government inquiry. In February 2020, we published the results of a survey of 1 001 New Zealanders about their attitudes to emerging digital technologies. This month we released *Job-to-job transitions and the regional job ladder*, a study of 30 million job changes in New Zealand over the last two decades.

With the evolving COVID-19 environment, the Commission has offered its services as an auxiliary or supplementary policy shop to frontline agencies to help with the crisis. The Treasury are interested and this week we will discuss how the Commission's capacity and expertise could best be utilised. Such support may shift the focus of our work programme away from a new inquiry to immediate work on the crisis, its economic impact, recovery and rebuild.

Overall the Commission tracked \$48k under budget for the reporting period, mainly due to \$76k variance in personnel due to vacancies and recruitment lag, but also due to efforts to reduce our non-inquiry work. The Commission is forecasting to be in budget balance at the end of the financial year.

We would be pleased to meet with you to discuss the Commission's performance or future work programme. We remain open to any feedback to assist us to improve the value of our reporting to you.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Murray Sherwin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Murray Sherwin
Chair

Triannual Report: 1 November to 29 February 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	Green	<p>The Commission presented its final report for the <i>Local government funding and financing</i> inquiry to referring Ministers on 26 November 2019. The report makes 78 findings and 44 recommendations. An independent evaluation of the Commission's performance is in progress.</p> <p>Given the Commission has now completed five-local government-related inquiries, we published a <i>Local government insights</i> report in February 2020 summarising the key lessons for local and central government.</p> <p>The Commission published five draft reports for the <i>Technological change and future of work</i> inquiry and briefed Ministers on 18 February 2020. The final report will be presented to referring Ministers on 31 March.</p> <p>Research and consultation has started on our new <i>Frontier firms</i> inquiry. An issues paper will be released in April to seek public feedback.</p>
Research	Orange	<p>Given a constrained budget for research activities, the Commission has reduced its research efforts to ensure that activities are sustainable.</p> <p>On 30 November 2019, the Commission published an international comparison into the <i>Scope and funding of local government</i>.</p> <p>The Commission surveyed 1 001 New Zealanders about their attitudes to emerging digital technologies and published the results in February 2020: <i>New Zealanders' attitudes towards robots and AI</i>.</p> <p>In March 2020, the Commission published <i>Job-to-job transitions and the regional job ladder</i>. This paper examines the frequency of job-to-job transitions and associated wage premiums.</p>
Promoting understanding	Green	<p>The Commission set up a FutureworkNZ blog to share insights and promote understanding of the <i>Technological change and future of work</i> inquiry. 86 posts were published over a 9-month period, achieving 21 453 web page views.</p> <p>We presented to a broad range of audiences on our research and inquiry work and hosted two presentations on productivity-related research.</p>

Inquiry: Local government funding and financing

To evaluate the Commission’s performance for this inquiry, an independent evaluation is being undertaken. Focus groups (facilitated by David Pickens) and an expert review (by Gus Charteris from Giblin Group) are in progress. An online participant survey is complete and is reported below. Survey responses were collected anonymously. There were 100 respondents out of 742 invitations, making a 14% response rate with a 9% margin of error.

	Status	Comment
Right focus		77% of respondents to the online survey agreed or strongly agreed that when undertaking the inquiry <i>“the Commission sourced all relevant research and information”</i> ; 74% agreed or strongly agreed we <i>“engaged with the right people”</i> ; 74% agreed or strongly agreed that <i>“the final report focused on the most significant issues to local government funding and financing”</i> ; and 69% agreed or strongly agreed that <i>“the final report went into sufficient depth on the issues it covered”</i> .
Good process management		75% of survey respondents agreed or strongly agreed that <i>“overall, they were satisfied with the Commission’s process for running the inquiry”</i> .
High-quality work		80% rated the overall quality of the inquiry as acceptable, good or excellent. 61% of survey respondents considered the inquiry’s <i>“analysis of information”</i> to be of good or excellent quality; and 47% considered the inquiry’s <i>“findings and recommendations”</i> to be of good or excellent quality. 75% of inquiry participants agreed or strongly agreed that <i>the Commission’s recommendations followed logically from the inquiry analysis and findings</i> ; and 53% agreed or strongly agreed that <i>“the Commission’s recommendations would, if implemented, materially improve local government funding and financing”</i> .
Effective engagement		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, attended 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. 271 submissions were received. 77% of survey respondents agreed or strongly agreed that <i>“the Commission provided ample opportunity to participate”</i> ; 76% agreed or strongly agreed that <i>“the Commission was approachable”</i> ; 80% agreed or strongly agreed that <i>“the Commission communicated clearly”</i> ; and 55% agreed or strongly agreed that <i>“the Commission understood their views”</i> .
Clear delivery of message		95% of survey respondents agreed or strongly agreed that <i>“the findings and recommendations were clear”</i> ; 90% agreed or strongly agreed that <i>“the style of writing and language used was clear”</i> ; and 86% agreed or strongly agreed that <i>“the summary material provided was useful”</i> .

Inquiry: Technological change and the future of work

	Status	Comment
Right focus		The Commission published a series of five short draft reports to enable greater alignment with government policy processes, as per our terms of reference.
Good process management		<p>A briefing on the draft reports was provided to Hons Robertson, Twyford, Lees-Galloway and Sepuloni on 18 February 2020. (With apologies from Hons Hipkins and Faafoi.)</p> <p>The draft reports were also presented to staff at MBIE, MoE and Future of Work cross-agency officials. Draft report 5 was presented to Treasury staff.</p> <p>The five draft reports are:</p> <ol style="list-style-type: none"> 1. New Zealand, technology and productivity 2. Employment, labour markets and income 3. Training New Zealand's workforce 4. Educating New Zealand's workforce 5. Technology adoption by firms <p>Submissions were invited over a 5-month period and 38 submissions received. The final report is on track for 31 March 2020.</p>
High-quality work		<p>Consultancy projects were contracted to provide expert advice on specific issues. NZCER investigated ways secondary school subject-choice systems, and students' subject choices, are positioned to respond to future of work trends. NZCER delivered research literature insights Subject choice for the future of work and Insights from focus groups with curriculum leaders in January 2020.</p> <p>Other consultancy projects included: Measuring the gig economy, The impacts of job displacement on workers by education level and Occupational drift in New Zealand (Motu) and Unemployment insurance what can it offer NZ? (Kathy Spencer).</p>
Effective engagement		<p>The Commission consulted with a broad range of stakeholders face-to-face: 45 engagement meetings and 11 conferences/roundtables. We held two workshops which involved a large number of external organisations: one on the digital divide and another on micro-credentials.</p> <p>To aid engagement with the wider public, a FutureworkNZ blog was set up to share insights. The team published 86 posts and received 48 blog comments. The blog had 21 453 page views and 3 650 page views on Sciblogs where it was syndicated. It also reached over 200 000 people on social media. Some blog posts were republished, for example in LSE Business Review, Management Magazine and NZ Herald's AgriBusiness report. Positive feedback was received, for example:</p> <p>"I've been reading lots of your blogs on the Productivity Commission website! In fact, I've been stalking it as I help to launch a not so dissimilar website for the UK Government's Industrial Strategy Council and figure out how to explain productivity in the simplest terms. You guys have done it so well." Head of Communications, Department for Business, Energy and Industrial Strategy, UK</p>
Clear delivery of message		The team focussed on conveying evidence and messages in clear and accessible language.

Previous inquiries

2019	Inquiry	Impact
November	Better urban planning	The Resource Management Review Panel published its issues and options paper on <i>Transforming the resource management system</i> . This paper contains multiple references to our <i>2017 Better urban planning</i> report.
	Low-emissions economy	The Government proposed to increase the landfill levy and apply it to more types of waste. The consultation document contains a number of references to recommendations from the Commission's <i>2018 Low-emissions economy</i> report.
December	Better urban planning Using land for housing Housing affordability	MP Mark Patterson noted the Commission's recommendation for an urban development authority in parliamentary debate. The first reading of the Urban Development Bill saw MP Andrew Bayley and Hon Jenny Salesa advise that three of the Commission's reports highlight the need for an urban development authority to address New Zealand's housing supply and urban development issues.
	Low-emissions economy	The Minister for Climate Change announced the establishment of a Climate Change Commission. This was a key recommendation from our <i>2018 Low-emissions economy</i> report. The Government also started consultation on emissions trading law reform. The options and analysis in the discussion paper <i>Accelerating renewable energy and energy efficiency</i> builds on, and responds to, the Commission's <i>2018 Low-emissions economy</i> report. It helped 'provide a basis for the policy work underway in this paper'.
	Boosting services sector productivity	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 the Commission's <i>2014 Boosting services sector productivity</i> report where we recommended giving the Commerce Commission the power to do market studies.
	Local government funding and financing	Special Purpose Vehicle legislation was introduced to help councils fund and finance infrastructure. The Commission's <i>2019 Local government funding and financing</i> report supported this work together with enabling legislation to expand the use of SPVs.
	Regulatory institutions and practices	The Minister of Finance announced plans to reform the governance and accountability arrangements of the Reserve Bank of New Zealand. He noted the systemic shortcomings in oversight of regulatory agencies by government departments as revealed by the Productivity Commission's <i>2014 Regulatory Institutions and Practices</i> report and need for a governance board rather than a single-member decision-making model.

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

Given a constrained budget for research activities, the Commission has reduced its research efforts to ensure that activities are aligned to available resources and sustainable.

The Commission carried out international research into the [Scope and funding of local government](#) to help inform our *Local government funding and financing* inquiry. This research was published in November 2019 and compares New Zealand to other high-income countries in the distribution of functions across central and local government; and in the sources of funding for local government. We found that the pattern is complex. Yet, a wider scope for local government – particularly including education, health and other social services – requires both broader funding bases and greater contributions from central government.

The Commission surveyed 1 001 New Zealanders about their attitudes to emerging digital technologies to contribute to the *Technological change and future of work* inquiry. The questions asked were a subset of those asked by the European Commission across 28 EU countries in March 2017. The results were published in February 2020: [New Zealanders' attitudes towards robots and AI](#).

The Commission published its work on [Job-to-job transitions and the regional job ladder](#) in March 2020. This paper uses linked employee-employer data to examine the frequency of job-to-job transitions and associated wage premiums. Two sets of findings are of particular interest: those that look at how labour market dynamics changed after the global financial crisis; and those that look at the effect of house prices on job-to-job transitions. We presented this research at a seminar at AUT and it has contributed to our work on the *Technological change and future of work* inquiry.

Promoting understanding

As noted in our last triannual report, the Commission has reprioritised its research and outreach efforts. Over the period of this report, we convened two public presentations on productivity-related research:

- *Firm-level productivity in NZ, 2001-16* by Professor Richard Harris from Durham University
- *Measuring the technical inefficiency among NZ District Health Boards* by Antony Andrews from AUT.

We also presented to a wide range of audiences across our inquiry and non-inquiry work, for example presenting on:

- The *Technological change and future of work* inquiry at a Future of Work workshop at Curtin University in Perth. Also to the Australian Productivity Commission in Melbourne and to a *Micro-credentials in engineering education* workshop in Wellington.
- The *Local government funding* inquiry to the Australasian Property Tax Summit in Melbourne, IPANZ members in Auckland, Road Controlling Authorities Forum in Wellington, LGNZ strategy day in Wellington, GEN conference in Wellington and EDNZ forum in Hamilton.
- Our research [Old jobs, new jobs](#) to the Annual Conference of the Association of Academic Historians in Australian and New Zealand Business Schools.
- The *Low-emissions economy* report to the International Association for Energy Economics Conference and to the Auckland University Energy Centre Summer School.
- 'Productivity in Waikato' to the Economic Development Forum in Hamilton.

Financial performance

Overall the Commission tracked \$48k under budget for the reporting period, mainly due to \$76k variance in personnel due to vacancies and recruitment lag. The Commission is forecasting to be in budget balance 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 eight-month reporting period:

All financial activity

Financial performance (\$000's)	8 months to February 2020		2019-20 year forecast
	Actual	Variance to budget	
Income	3 444	0	5 132
Expenditure	3 349	47	5 132
Net surplus	95	47	-
Total equity			844

Output cost breakdown

Output performance (\$000's)	Actual (8 months to February 2020)	Variance to budget (8 months to February 2020)	Allocation remaining (full year)
Inquiries	2 977	8	1 522 (34%)
Research	372	39	271 (42%)

Capability

Professor Sally Davenport completes her appointment as Commissioner on 31 March 2020. The process of recruiting a new Commissioner is underway.

Inquiry Director Steven Bailey left the Commission in January to move to Dunedin. Dr Patrick Nolan will be the Inquiry Director for our new inquiry into frontier firms.

There have been several changes to Policy Advisors with one leaving to be an Analyst at The Treasury and another going on parental leave. One Advisor on secondment has returned to the Ministry of Education two weeks earlier than planned to work on the COVID-19 response. Another Advisor on secondment to MBIE has resigned from the Commission. Given these staff departures, we will recruit for new Advisors in the coming months, as budget and circumstances allow.

Priorities and issues ahead

On the horizon for the next triannual period (March - June 2020) and beyond:

- The Commission will release its issues paper for the *Frontier firms* inquiry in April.
- The Economics & Research team will work on Longitudinal Business Database projects, including research on financially distressed 'zombie' firms, reallocation and management practices.
- The evolving environment with COVID-19 may shift the focus of our work programme away from a new inquiry.
- The Commission and the Treasury will discuss a new work programme that utilises the Commission's capacity and policy expertise to help with the COVID-19 crisis.