



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

# **Submission of the New Zealand Council of Trade Unions Te Kauae Kaimahi**

**to the**

**Productivity Commission**

**on the**

**Measuring and Improving State Sector  
Productivity – Issues Paper**

**P O Box 6645**

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## **Summary of recommendations**

1. Measurement and improvement of productivity should be studied and implemented in the context of broader attention to performance against outcomes and the drivers of productivity, including worker engagement.
2. Productivity measurement should be adopted in a flexible manner at the level of work-groups as part of close engagement with public sector workers.
3. Aggregate measures of public sector productivity should not be published in isolation or used as a proxy measure for performance.

### **1. Introduction**

- 1.1. This submission is made on behalf of the 30 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 320,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 1.3. The narrow definition of public sector productivity established by the Commission's terms of reference is worrying, since it limits the Commission's work to a technical exercise in developing measures that are likely to have much broader implications if adopted as top-level indicators. Productivity in the technical sense defined by the present inquiry should not be used as a proxy measure for public sector performance and would have a significant distorting effect if adopted as such by government.

- 1.4. In general terms, increases in technical productivity only contribute to better performance where measured outputs are well matched to desired outcomes. The methods of increasing measured productivity must also be carefully managed, in close consultation with frontline workers, so as not to increase waste or negatively impact on other activities that are necessary for achieving outcomes, but which may not be captured as measured outputs (Berman 2015, 6).
- 1.5. The productivity-enhancing value of promoting employee engagement has been widely reported, including in a recent report by the OECD (2016) on employee engagement in the public sector. New Zealand unions in several sectors, including the public sector have supported programs of close engagement with workers to improve productivity.
- 1.6. The CTU has previously led work, in partnership with government and public sector employers, to identify the drivers of productivity. The resulting development of the 7 Drivers of Productivity (CTU 2007, 14-16) included a focus on Measuring what Matters and should be considered by as important context to frame the current work of the Commission.
- 1.7. The Commission should consider how measurement and improvement of productivity in the public sector can best contribute to flexible processes of collaborative performance improvement, delivering responsive public services as part of close engagement with public sector workers.

## 2. Responses to Questions

**Q1: Which types of government services most readily lend themselves to the direct measurement of outputs? Which services don't lend themselves to this?**

- 2.1. Every government service will include measureable outputs, but these may not be good proxies for overall performance or effectiveness in achieving outcomes. Quality public services that are flexible and responsive to the needs of individuals and communities will tend to operate in ways that do not lend themselves to standardised output measures.
- 2.2. Quality outcomes may be better achieved by using regular evidence-based review, in close consultation with front-line workers, to identify best practices for achieving desired outcomes.

- 2.3. Where best practices are identified that involve measureable outputs, these may be useful to track, but other aspects of best practice may frequently be less tangible. This would commonly include taking time to listen, understand, and respond to the needs of service users. This kind of flexible and responsive service may initially appear to be less efficient in technical terms, but is likely to be more effective in aligning quality public services with individual, family, and community needs.
- 2.4. For instance, in health, the most economical and effective activities are often early interventions in preventative primary healthcare. The impacts of these services can be measured at the aggregate or epidemiological level, but are not always so easy to count or attribute value to at the level of individual outputs. Output measures tend to exclude the intangible aspects of health services that contribute to overall effectiveness and public trust, including the social and emotional labour performed by health professionals, including nurses, doctors, and care and support staff.
- 2.5. In education, many of the outputs and outcomes of quality teaching are likewise intangible and difficult to measure. Attempting to measure quality can be counter-productive, as too much focus on measurable indicators such as test scores and standards can have a distorting effect on education.
- 2.6. In the justice system, efficiency measures do not capture fairness and may be counter-productive to quality outcomes if there is too much emphasis on fast turnover of cases.

**3. Q2: What progress has been made in implementing the recommendations of Statistics New Zealand’s 2010 report, *Measuring government sector productivity in New Zealand: a feasibility study?***

- 3.1. The productivity statistics for the health and education sectors published by Statistics NZ since 2010 have not achieved recognition or use in these sectors. As we commented to Statistics NZ at the time, the statistics are misleading if not accompanied by measures of the quality of the services they are concerned with, and warnings about their use. This has not been done. In addition, the statistics attempt to aggregate too many disparate activities, using too many subjective assumptions. As a result, the statistics are useless as measures of service performance and are largely ignored in the sectors they purport to measure.
- 3.2. There is a more limited use for statistics on state sector output as a contribution to the system of national accounts. There may be some value to continuing to develop

statistical measures of aggregate output for this purpose, based on further engagement with stakeholders in the sectors. But the statistics should not be published in isolation or in a way that purports to measure the performance of public services.

**4. Q3: Which, if any, of the recommendations in Statistics New Zealand's 2010 feasibility study should the Commission re-examine?**

4.1. The Commission should pay careful attention to Statistics NZ's recommendation G1:

Any implementation of this study should be clear what the question(s) associated with any requested productivity measure is (are), with particular emphasis on the perspective of the measure.

4.2. The Commission will need to pay further attention to the issue of how productivity measurement can be used in the public service, by whom, at what level of organisations, and for what purposes. The answers to these questions, which should be developed in close consultation with staff in the relevant sectors, will influence what form of productivity measurement (if any) is useful as part of broader performance-tracking systems.

4.3. The Commission should take note of SNZ's recommendation G4 and avoid adopting statistical measures of service quality in the public sector, as there is currently no consensus on existing quality measures in public services:

A cautious approach should be taken in combining measures of quantity and quality change in health care and education output, with wide and transparent discussion of options and careful building of a consensus before decisions on methods are adopted. Until then, quality change should not be incorporated into measures of quantity change in output.

4.4. Particular note should be taken of recommendation H10 with regard to health care:

Given the development infancy of system-level measures of change in the quality of health care provided in New Zealand, and until there is broad discussion and agreement on how to construct such measures and combine these with the existing quantity measures, care should be taken in presenting such information.

4.5. With regard to education, the Commission should take note of the cautions expressed by SNZ regarding existing measures of quality in assessing outputs in recommendations E20-22. We suggest that issues of education quality are best

addressed in close collaboration with teachers, students, and communities and are unlikely to be adequately captured in any national level statistic.

**5. Q4: What do government agencies currently do to measure their productivity?**

**How do government agencies use productivity measurement to improve the productivity of core services?**

**6. Q5: How should the selection of outputs differ for different users of productivity data (Ministers, chief executives and managers)? What principles should guide these decisions?**

6.1. We are concerned at the assumption that Ministers, Chief Executives, and Managers would be the primary users of productivity data. For the reasons discussed above, productivity data is best used by work teams in close collaboration as part of high performance high engagement processes. Productivity data should not be presented to managers in isolation, but as part of broader performance reporting, aligned to outcomes.

**7. Q6: Are there instances where a subset of core outputs would provide a reasonable indicator of the efficiency of a state sector organisation or programme? For what services or organisations is this most likely to be the case?**

7.1. No. This approach is likely to have a distorting effect. Elevating any subset of measured outputs to ‘core’ status runs counter to the flexible approach described above. It risks distorting the operations of the organisation or programme if more effort is devoted to improving that indicator at the expense of its complete set of objectives. Core performance planning should be focused on key outcomes and impacts, with outputs defined in a flexible and responsive manner at the level of work teams.

**8. Q7: Should the Commission explore willingness-to-pay methodologies further for the purpose of valuing government non-market outputs? Are there any other viable alternatives to cost-weighting as a way of valuing and aggregating public sector outputs?**

8.1. No. Public services are not market goods and there is no value in a subjective measure based on the assumption that they could be treated as such.

8.2. As noted above, we do not see any purpose in seeking to value public sector outputs in dollar terms or in the aggregate, apart from as a very specific and technical exercise as part of the system of national accounts.

**9. Q8: For which services would it be reasonable to assume quality remains unchanged over time?**

**Q9: What services need to be quality adjusted? What indicators of quality should be used for the different state sector services?**

9.1. See Statistics NZ recommendation G4. Measures of output quantity and indicators of quality should be collected and reported separately. Attempting to combine the two in a single measure of productivity reduces the measure to a largely subjective measure with low construct validity compared to the component data.

**10. Q10: Is case mix adjustment of productivity measures feasible in state services other than for the outputs of hospitals?**

10.1. It is difficult to see what purpose this would serve. As stated above, aggregate measures of output are not useful measures of organisational performance, especially in the public service.

**11. Q11: How should the Commission think about developing productivity measures in areas of the state sector where services are collectively consumed?**

11.1. Where public services are collectively consumed (in general, public goods) we do not consider that it is appropriate to measure them by their utility to individual consumers, as implied above by the suggestion of ‘willingness to pay’ measures. Their value may be considerably greater than the sum of individuals’ valuations even if we were confident about the validity of those valuations.

11.2. We recommend the commission examine the previous work done by the State Services Commission, Treasury, and Department of Labour on the public value approach to measuring and managing for outcomes.

11.3. With an overarching focus on managing for outcomes, the relative value of outputs can be assessed as components of different processes for the production of the same public good outcomes. For instance, the value of a preventative health intervention could be assessed in terms of the cost of treating health conditions that would otherwise have developed.

11.4. Measurement against an agreed set of outcomes and measurable indicators, such as reduction in poverty or preventable disease, would allow for quantified assessment of public-good focused outputs without recourse to fictionalised assumptions about utility to individual consumers.

**12. Q12: How well are agencies and service providers (eg, schools, DHBs) able to cost their activity at an output level?**

**Q13: How good are government agencies at ‘activity-based costing’? How well do they understand ‘cost-to-serve’? What are the barriers to agencies doing this well?**

**Q14: How well do agencies’ financial management systems line up with their outputs?**

**13. Q15: For which state services are co-payments most common? For these services, does good data exist on the share of cost covered by copayments? How should the Commission take co-payments into account when developing productivity measures?**

13.1. Co-payments are set arbitrarily, often politically, and are not a good indication of the value of public services. Co-payments should not be used in developing productivity measures.

**14. Q16: What public sectors/services should the Commission focus on as case studies for developing productivity measures? Why?**

14.1. The Commission should not develop productivity measures, but should study examples of collaborative performance improvement, such as High Performance High Engagement workplaces, to assess what kind of measures of performance and productivity are useful and in what contexts.

14.2.

**15. Q17: What challenges are there to measuring productivity of the health system, or the productivity of health services? How can those challenges be overcome?**

**Q18: What challenges are there to measuring productivity of the education system, or the productivity of education services? How can those challenges be overcome?**

**Q19: What challenges are there to measuring productivity of the justice system, or the productivity of justice services? How can those challenges be overcome?**

**Q20: What challenges are there to measuring productivity of the social services system, or the productivity of particular social services? How can those challenges be overcome?**

**Q21: How are current performance indicators used in the state sector? Are performance indicators used for different purposes in different parts of the state sector? If so, what factors explain the different uses?**

**16. Q22: What are the different needs of ministers, chief executives and managers in using productivity measures?**

16.1. See response to Q5.

**17. Q23: Assuming reliable efficiency measures can be developed, what factors would influence the use of these measures by decision makers within the state sector? How could the use of efficiency measures be promoted?**

**Q24: Would measures of efficiency strengthen the existing performance framework? Why/why not? Which aspects of the existing performance framework would gain most from the inclusion of efficiency measures?**

**Q25: How could measures of efficiency augment existing performance measures?**

**Q26: What other countries have good processes in place to measure and improve state sector productivity?**

**Q27: What examples from the private sector illustrate best practice in understanding and improving productivity?**

17.1. Constructive engagement between employers and unions contributes significantly to improved productivity. This approach has been adopted in several large firms. This

includes the ‘High Performance High Engagement’ initiatives in Air New Zealand and KiwiRail, introduced with the support of unions. This involves redesigning work systems as part of a non-hierarchical and collaborative approach to employee engagement. This includes design of appropriate and responsive output measurement to inform continuous improvement processes at the level of the work team and across the organisation.

- 17.2. In its 2016 annual report, KiwiRail (2016, p17) reports that improvements in health and safety as well as faster turnaround time for routine maintenance have been achieved by involving work teams in re-designing processes and equipment: ‘By involving those closest to the challenge in developing solutions we have been able to achieve tangible improvements in productivity and engagement.’

**Q28: Does the capability exist within the state sector to measure and interpret productivity? Where is capability strong and weak?**

**Q29: What actions could the government take to help state sector organisations measure and understand their productivity?**

- 17.3. As noted above, the best examples of meaningful improvements (aligned to outcomes) in service efficiency have come out of collaborative processes of engagement involving workers and their unions.

**18. Q30: What systems and processes would support the regular and rigorous measurement of productivity (at a sector and service level)?**

- 18.1. Aggregate measures of technical productivity are not likely to be useful at the sector level. At the service level, the systems and processes developed as part of highly engaged workplaces are built around regular and rigorous measurement and improvement of performance, including productivity.

**19. Q31: How innovative are New Zealand's state sector agencies? What are the barriers to innovation in the state sector? What examples or case studies are there of successful attempts to change government processes to improve efficiency?**

**Q32: How effective is the state sector in using ICT to realise productivity improvements? What are the barriers to government doing this well?**

**Q33: How do public sector cultures support or discourage efforts to improve productivity in the state sector?**

**Q34: How do public sector cultures support or discourage efforts to improve productivity in the state sector?**

**Q35: Does the public finance management system inhibit agencies from redirecting their activity to more productive ways of delivering public services?**

**Q36: What other barriers are there to government agencies taking steps to improve the efficiency of their operations**

- 19.1. As noted above, improvements in technical productivity are only useful in so far as they improve progress towards outcomes. This requires a broader collaborative approach to collective performance measurement and improvement.
- 19.2. In particular, innovation is best promoted within a framework of worker engagement and collaboration, where work teams are given scope to find new ways to achieve desired outcomes, rather than being bound to pre-defined measured outputs.

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