



THE TREASURY

Kaitohutohu Kaupapa Rawa

ST-4-6

1 March 2018

State Sector Productivity Inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Attention: Judy Kavanagh

Measuring and improving state sector productivity - Treasury submission

We attach our submission on your draft report on measuring and improving state sector productivity (the **draft report**). Our submission also reflects discussions with you on where you are looking to go in the next stage of the inquiry.

The draft report is in two parts, with part one (chapters 1-5) being guidance to agencies on developing productivity measures, and part two (chapters 6-8) looking at the productivity measurement and improvement within the wider public sector performance and financial management systems.

Both part one and part two require significant work in order for the final report to provide useful analysis, ideas and recommendations for their primary audiences, with part two in particular being at a very early stage. We are keen to engage with you as you develop both parts.

For part one of the draft report our submission provides recommended improvements that will help create guidance that achieves its intended impact. In summary, the guidance needs to provide:

- A balanced argument explaining why agency practitioners should undertake productivity measurement, including:
 - showing how productivity measurement fits within an agency's performance context

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- how to best balance the costs, effort and risks in productivity measurement with its benefits, and
- recent, compelling examples of the benefits of productivity measurement
- Useful, accessible guidance on how to undertake productivity measurement and avoid common pitfalls, including:
 - identifying the practitioner groups you want using the report and tailoring it to their responsibilities and capabilities
 - describing how the issues you identified in undertaking productivity measurement are overcome, and illustrating this through your accompanying case studies
 - emphasising the seven principles of good productivity measurement in the report and through the accompanying case studies, and
 - editing the report to avoid unnecessary terminology barriers for people in agencies you want to use the guidance.

The second part of the draft report is at an early stage of development, contains many more questions than findings, and covers a broad scope. These factors mean we have not provided detailed comments on the second part of the draft report in this submission. We suggest engagement with us over the next stage of the inquiry on specific matters or questions. We also suggest it will be useful to identify and focus your efforts on what you see as the key issues in this section of the draft report.

To achieve the most impact, the recommendations for both parts of the final report should be prioritised to reflect their relative value (the impact of the change against the costs and practicalities of implementation), and as much as possible backed up with evidence and/or examples.

More detailed information on our recommended improvements is contained in our full submission attached and we can discuss these with you further if required. We look forward to hearing from you as you work on the final stage of this inquiry.

Please contact Andrew Squires, Senior Advisor or Megan Taylor, Team Leader, Strategic Performance Improvement, with any questions.

Yours sincerely



Sarah Hardy
Manager, Strategic Performance Improvement

Treasury submission: Productivity Commission draft report “Measuring and improving state sector productivity”

A key role of the Treasury is managing the system settings we have to ensure public services meet citizen’s needs and deliver value for money. Our objective is to improve performance across the public management system.

The Productivity Commission’s (the **Commission’s**) draft report considers the measurement of productivity in the State sector. It provides extensive coverage of the technical issues involved in measuring productivity and the cultural and institutional factors limiting its uptake.

Significantly more work is required over the next stage of the inquiry to develop analysis, findings, guidance and recommendations for the final report. Our submission outlines recommended improvements that will take the initial work on productivity forward into a valuable, practical resource for agency practitioners and others seeking to improve performance in the State sector.

Recommended improvements to Part One (Chapters 1- 5) to deliver useful guidance for agency practitioners

The following paragraphs highlight recommended improvements for part one of the draft report so that the ‘guidance’ part of the final report contains:

- a balanced argument explaining why agency practitioners should undertake productivity measurement, and
- useful, accessible guidance on how to undertake productivity measurement and avoid common pitfalls.

A balanced argument explaining why agency practitioners should undertake productivity measurement

Performance is multi-dimensional. Productivity is one aspect of performance, but not the only aspect. The public sector is increasingly focusing on outcomes, and on ways to work across organisational boundaries to achieve them. Both of these are not easy and take agency focus and effort. No one size fits all and each agency needs to focus on the dimensions that will lead to greatest improvement in overall performance (including productivity).

- *Recommendation: The final report needs to more clearly state that productivity is important as one aspect of performance.*

Measuring productivity requires resources in agencies and measurement has inherent risks including driving perverse behaviours (Goodhardt’s Law), and these issues are briefly listed on page 77 of the draft report. These risks, costs and benefits differ between the types of services/outputs and the final report could look to emphasise a more nuanced approach to thinking about how to best understand (including, but not always, through measurement) and improve productivity depending on the particular

service/output being looked at. An earlier research note from the Commission (Social sector productivity: a task perspective - May 2017) may be helpful on this.

Recommendation: The final report should include a more balanced view of the costs and risks of productivity measurement, including perverse behaviours. It should also look at different types of services and choose those services that are most likely to provide durable net benefits from measurement (for example the simpler production and procedural task outputs).

Given the difficulties in undertaking productivity measurement noted in the draft report, motivating agencies to undertake measurement requires strong evidence that productivity measurement is likely to lift productivity and lead to an unambiguous improvement in overall performance. We think the argument and evidence for these links are undeveloped in the draft report.

The draft report highlights quite old examples of improvement that are based from work and initiatives from the 1990s (e.g. income support by the Department of Social Welfare and pharmaceutical treatment provision by PHARMAC). These are generic case studies about productivity improvement and do not show how productivity measurement led to improvement. As such they do not provide a compelling argument.

Recommendation: The report should identify and include recent, compelling examples of where productivity measurement has successfully led to improved performance.

Useful, accessible guidance on how to undertake productivity measurement and avoid common pitfalls

It is not clear in the draft report who would undertake productivity measurement, and thus who the guidance is for. We think there are many quite different practitioners, who are likely to have different needs, backgrounds and interests.

For example, the accompanying Commission report on the History of Efficiency Measurement by the Health Sector describes the many different agents that have either developed or demanded productivity/efficiency measures in the Health Sector, and they all have different motivations, capabilities and access to information.

Recommendation: The Commission should identify the practitioner groups you expect to use the report and tailor it towards their responsibilities and capabilities (e.g. chief financial officers, performance analysts etc).

We believe the report over emphasises the simplicity of productivity measurement because it doesn't reflect the risks and costs of using productivity as a public management tool. The draft report describes a number of issues with creating and applying productivity measures within the public sector including the difficulty of defining the output of services and undertaking adjustments to reflect changes in output quality. These issues increase the cost and effort involved in measurement, as well as the risk of erroneous findings and gaming. In many instances the draft report

dismissed these issues (“productivity measurement is possible and relatively straightforward” p 3). However, there was little in the report and in the case studies that showed how to successfully overcome these issues (in particular the issue of measuring changes in quality, or separating out the output from the impact in the case of services).

- *Recommendation: Greater clarity is needed on how to overcome productivity measurement issues. In particular when to push forward on the measurement front and when to use other techniques (such as process mapping, continuous improvement) to understand and improve productivity.*

We also thought the case studies (separate reports) do not currently provide a strong case for the benefit of productivity measurement and its simplicity. We suggest, if feasible, that one or two of the case studies are taken further over the next stage of the inquiry to illustrate how they can overcome these issues, in particular the issue of measuring quality change. The case studies taken forward should be those that are most likely to be successful based on the principles for good productivity measurement identified in the draft report.

- *Recommendation: Some of the case studies should be developed further so they can demonstrate how to successfully overcome the issues of productivity measurement.*

The seven principles of productivity measurement identified in the draft report are useful and practical to help practitioners think about when to use productivity measurement and how best to undertake it. However in the current draft report the principles are difficult for a reader to identify due to the overall length of the document.

- *Recommendation: The final report should highlight the seven principles for productivity measurement. It would also be useful to include them in the Commission’s accompanying case study reports to illustrate them in a more practical setting.*

We noted in the draft report (and described more fully in the supporting ‘Health productivity history’ and ‘State Sector Leader’ reports) the importance of terminology to past and future success of productivity measures. We thought the views of senior leaders on terminology were somewhat dismissed in the draft report, but if measurement is to get traction it needs buy-in and support from all levels.

- *Recommendation: The final report should be edited so it avoids unnecessary terminology barriers for the agency practitioners you want to use the guidance. The language needs to resonate with practitioners (and their stakeholders).*

Comments on Part Two (Chapters 6- 8) – productivity within the wider institutional and performance framework settings

The following paragraphs describe recommended improvements for part two of the draft report.

Engaging with the Treasury directly on the questions and findings on performance frameworks and institutional settings

Much of the material in chapters 6-8 is introductory and high level, covering broad topics and including very open questions, for example what measures exist or could exist to facilitate innovation, and how can the central agencies encourage innovation, and improve effectiveness and efficiency. We suggest it will be useful to identify and focus your efforts on what you see as the key issues in this section, perhaps based on international literature and previous experience. There is also an on-going central agencies work programme in the areas that this part of the report covers, as outlined in the latest Briefing to the Incoming Minister documents from the State Services Commission and the Treasury. For these reasons it is impractical to adequately cover part two topics in our submission and on-going engagement with the Treasury on specific matters will be a more useful approach.

- *Recommendation: We suggest there is benefit in identifying the key issues to focus on in part two. We also suggest further engagement with the Treasury on specific topics and questions during the next stage.*

Prioritising findings relating to performance frameworks and institutional settings

To enable improvement it will be important to provide a strong argument and evidence for any change. To ensure that focus is on the things that make the most difference we would encourage you to ensure that findings and recommendations are prioritised, and if necessary, costed and any preconditions or assumptions clearly identified. For example there may be small changes that will make a big impact, while some significant pieces of work that have negligible effect.

- *Recommendation: In the final report the recommendations should be prioritised to reflect their relative value (the impact of the change against the costs and practicalities of implementation), and as much as possible backed up with evidence and/or examples.*