



PSA Submission on the Inquiry into State Sector Productivity Issues Paper

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PSA submission on the Productivity Commission Issues Paper: Measuring and Improving State Sector Productivity

The New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi (the PSA) is the largest trade union in New Zealand with over 63,000 members. We are a democratic organisation representing members in the public service, the wider state sector (the district health boards, crown research institutes and other crown entities), state owned enterprises, local government, tertiary education institutions and non-governmental organisations working in the health, social services and community sectors.

The PSA has been advocating for strong, innovative and effective public and community services since our establishment in 1913. People join the PSA to negotiate their terms of employment collectively, to have a voice within their workplace and to have an independent public voice on the quality of public and community services and how they're delivered.

The PSA is an affiliate of the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU) and supports the submission of the CTU on the issues paper.

Executive Summary

The PSA supports efforts to improve productivity and performance as part of workforce engagement processes, such as High Performance High Engagement systems. By engaging with workers at all levels, public sector agencies can better identify what outputs to measure as well as ways to improve productivity. By tracking productivity within broader systems for improving outcomes, agencies can enhance their contributions to the creation of public wellbeing and value.

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, driven by worker engagement.

The PSA does not support the adoption of aggregated measures of outputs or technical productivity being used as a proxy for public service performance. The performance of the public service is better measured by tracking progress towards outcomes.

Terms of reference

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.

Although the Commission's terms of reference exclude extensive engagement with measurement of outcomes and allocative efficiency, the Commission will need to consider whether increased attention to measurement of outputs is an effective means of improving outcomes. In general terms, increases in technical productivity only contribute to better performance where measured outputs are well matched to desired outcomes and where the methods of increasing measured productivity do not increase waste or negatively impact on other activities that are necessary for achieving outcomes (Berman 2015, 6).

Productivity in the public sector

Productivity in the public sector is best measured through a public value approach based on defined outcomes and impacts. Where outputs are measurable, these should be tracked in terms of contribution to impacts and outcomes contributing to public value. Measurement and improvement of productivity is best done as part of broader high performance work systems driven by collaborative processes of worker engagement.

The need for measurement of outputs in the public sector to be situated within a broader performance framework was identified in a 2007 paper submitted by the Department of Labour to the Workplace Productivity Reference Group (Aitken 2007). The paper acknowledged work by Statistics NZ to measure aggregate public service outputs for the purposes of the system of National Accounts, but distinguished this work from the need for the public service to focus on managing for outcomes in creating public value. The paper clearly distinguishes between the uses of productivity measurement in the private and public sectors:

- In the private sector, value is created by selling goods and services. Success is based on the volume and prices of goods and services sold and productivity is increased when a greater amount of private value is achieved per unit of input.
- In the public sector, value is created by promoting the public good (e.g. a healthy

environment) and by delivering services to citizens (e.g. funding/providing education). There are generally no market prices attached to the services delivered and volumes are often difficult or impossible to compare.

- The public management system for creating public value is called “managing for outcomes” and involves:
 - a. defining outcomes or objectives, e.g. maintain sustainable fisheries
 - b. identifying how those outcomes will be achieved
 - c. asking what mix of outputs (activities) will best achieve the outcome (e.g. surveillance, warnings, prosecutions, information campaigns) for the available inputs/resources.

(Aitken 2007, 1)

The PSA has strongly supported the adoption of High Performance – High Engagement (HPHE) workplace systems to build productivity. 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. HPHE 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.

The HPHE approach has been adopted in several large workplaces including Air New Zealand and KiwiRail, and has involved the development of appropriate output and efficiency measures in consultation with work teams. 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.’

The PSA has been actively involved in discussions with DHBs on introducing HPHE systems in the health sector. This discussion has been progressed through meetings under the Health Sector Relationship Agreement (HSRA) and a dedicated conference on HPHE in February 2017, including presentations from KiwiRail, Air NZ, and international experts from Restructuring Associates. Frameworks for introduction of HPHE are currently being discussed between the PSA and Whanganui, Bay of Plenty, Nelson Marlborough, and South Canterbury DHBs.

A 2006 report on Partnership and Productivity in the Public Sector by the Partnership Resource Centre (2006, p9) of the Department of Labour noted the importance of developing measures of public sector productivity, while cautioning that:

The homogenisation of outputs for measurement can lead to homogenisation of services themselves, particularly in a management context in which personnel are judged and rewarded against their performance in meeting output targets. The problem is that this collides immediately with the modern “public value” approach to service provision as an element in the creation of public value, in which a critical aspect of service quality is the extent to which socially and culturally heterogeneous needs are met within a context of social and cultural norms mediated through democratically accountable political processes.

The report (p10-11) goes on to argue that productivity measures, especially definitions and methods of counting outputs, need to be continually reviewed in consultation with staff and stakeholders, and should be used primarily within wider processes of reviewing collective performance within work teams, rather than as a method of top-down control or individual performance management. The argument here is that top-level performance measurement and accountability of public service agencies should be framed in terms of impacts and outcomes, with measurement of outputs as a second or third tier measure primarily used as part of flexible internal review processes. Productivity measures, including definitions of outputs, need to be developed and applied flexibly to accommodate the variable needs of public service users and stakeholders.

As an example of the need for responsive and flexible output measures aligned to the needs of stakeholders, Te Puni Kōkiri (2014) has issued advice on measuring effectiveness for Māori across the public sector. Part of this approach involves developing culturally specific and appropriate measures of service effectiveness based on consultation with Māori communities and iwi (p6). A comprehensive framework for reporting on effectiveness for Māori would include measurement of relevant outputs oriented toward achievement of impacts and outcomes of value to Māori. The choice and definition of relevant outputs cannot be assumed in advance or limited to application of universal standards, but should be defined in consultation with stakeholders based on contribution towards agreed goals, defined in terms of impacts and outcomes.

Measurement of output efficiency works best when it is done as part of an holistic assessment of service delivery in close engagement with front-line workers. The Continuous Improvement Process developed by the State Services Commission (<http://www.ssc.govt.nz/continuous-improvement-state-services>) provides a model of close engagement with public service staff to improve performance, including the development of appropriate measures for ongoing measurement of productivity and efficiency. CIP has received consistent support from the PSA, as well as positive feedback from public service staff, managers, and service-users.

Responses to the questions in the submission form

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

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.

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.

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.

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.

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.

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.

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?

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. The methodology for deriving these single-number aggregate statistics involves too many subjective assumptions, including the arbitrary weighting of the case-mix formula and the inclusion of quality measures. In addition, they attempt to aggregate too many disparate activities. As a result, the statistics are useless as measures of service performance and are largely ignored in the sectors they purport to measure.

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.

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

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.

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.

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.

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.

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.

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?

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?

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.

In general, the PSA supports openness and transparency of data in the public service, so it is important that any aggregate measures of productivity and performance be well designed and suitable for a public audience.

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?

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.

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?

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.

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.

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?

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.

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

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.

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

Where public services are collectively consumed as 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.

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.

While absolute valuation of public goods may not be directly possible, a focus on outcomes allows for relative comparison of outputs based on their impacts, which may allow for indirect valuation. 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.

Measurement against an agreed set of outcomes and measureable 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.

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?

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?

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.

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

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.

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?

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

See response to Q5.

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?

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?

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

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

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 High Performance High Engagement workplaces are built around regular and rigorous measurement and improvement of performance, including productivity.

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?

Q33/34: How do public sector cultures support or discourage efforts to improve productivity in the state sector?

The PSA and the State Services Commission have done extensive work on creating workplace cultures of integrity and productivity¹. These conditions are undermined when staffing numbers are capped at unsustainable levels and State servants work extensive unpaid hours to compensate for this².

The cap on public service employees has outlived what usefulness it had as a policy measure and continues to create unintended consequences, such as: professionals in client-facing roles spending a disproportionate amount of their time on administration and; the use of external contractors to make up the capacity and capability gap created by the cap. This additional capability is expensive and difficult to integrate into departmental workforce and system capability planning.

We do not see the increased use of fixed term agreements and other forms of insecure work, currently promoted in agency workforce plans, as an inevitable feature of the future of work but rather a choice by those agencies. Our understanding of integrity matters, both from the literature and from our practical experience, is that the increased use of insecure employment arrangements undermines integrity cultures and behaviours.

More consistent pay and conditions

¹ <http://www.ssc.govt.nz/sites/all/files/positive-workplace-behaviours-april2016.pdf>

² http://www.victoria.ac.nz/som/clew/publications/PSA-Report_Workplace-Dynamics-in-NZ-Public-Services-2013_Amend.pdf

As recognised in the Moran Report³ in Australia, to improve the connection between services and across agencies it is important to achieve more consistent pay and conditions to increase mobility and improve the capability and adaptability of staff.

Under existing legislative arrangements the best tools for delivering more consistent pay and conditions of employment are through agencies with multiple agreements combining coverage in single enterprise agreements and through multi-employer collective agreements (MECAs). MECAs could be for either clusters of agencies or whole-of-service. Such arrangements could be supported by a common pay spine or classification system across the public service.

Current bargaining and pay setting arrangements are inefficient and costly. We are interested in exploring with the Commission alternatives to current arrangements. All or any of these options would have the advantage of efficiency, compared to current arrangements, and would enable the dissemination of best practice terms and conditions and approaches to pay.

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

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.

In particular, efficiency and innovation is best promoted within a High Performance High Engagement framework, where work teams are given scope to find new ways to achieve desired outcomes, rather than being bound to pre-defined measured outputs.

Existing initiatives, such as the Continuous Improvement Program of the State Service Commission could be expanded with greater resourcing and prioritisation.

³ *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*, March 2010
http://www.dpmc.gov.au/publications/aga_reform/aga_reform_blueprint/docs/APS_reform_blueprint.pdf

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